
FEDERAL RECEIPTS

12. GOVERNMENTAL RECEIPTS

Since taking office, President Obama has signed several major tax bills designed to jumpstart the economy and provide tax relief, starting with the American Recovery and Reinvestment Act of 2009 (ARRA) and culminating with the American Taxpayer Relief Act of 2012 (ATRA), which passed with bipartisan support on January 1, 2013.

The Administration believes that more needs to be done to grow the economy and create jobs and supports tax reform as a critical step to rebuilding the economy to be stronger and more stable than in the past.

As a first step toward balanced deficit reduction and tax reform, the President proposes that the Congress enact two measures that would raise \$651 billion in receipts by broadening the tax base and reducing tax benefits for higher-income taxpayers. The Budget also includes

proposals to support and reward work by expanding the Earned Income Tax Credit (EITC) for workers without qualifying children and to help families save for retirement and pay for college and child care, all paid for by tax loophole closers and other measures to broaden the tax base. In addition, consistent with the President's 2012 Framework for Business Tax Reform, the Budget includes proposals to broaden the business tax base, strengthen incentives for research and clean energy, and reform the international tax system.

Beyond these measures, the President is committed to working with the Congress and other stakeholders to build on the foundation laid by this Budget to enact a tax system that is fair, simple, and efficient, one that is right for the 21st century American economy.

Table 12–1. RECEIPTS BY SOURCE—SUMMARY

(In billions of dollars)

	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Individual income taxes	1,316.4	1,386.1	1,533.9	1,647.8	1,780.7	1,920.1	2,047.1	2,178.5	2,314.1	2,450.7	2,591.5	2,733.1
Corporation income taxes	273.5	332.7	449.0	501.7	528.0	539.9	514.4	526.6	541.9	557.4	571.4	591.9
Social insurance and retirement receipts	947.8	1,021.1	1,055.7	1,127.3	1,193.8	1,255.7	1,313.7	1,372.1	1,445.1	1,515.4	1,582.6	1,653.9
(On-budget)	(274.5)	(288.8)	(297.9)	(315.8)	(344.0)	(357.9)	(368.6)	(384.7)	(403.2)	(421.4)	(439.9)	(458.9)
(Off-budget)	(673.3)	(732.3)	(757.9)	(811.5)	(849.8)	(897.8)	(945.1)	(987.4)	(1,041.9)	(1,094.0)	(1,142.7)	(1,195.0)
Excise taxes	84.0	93.5	110.5	115.4	118.9	122.1	126.7	130.3	135.1	140.3	146.4	153.6
Estate and gift taxes	18.9	15.7	17.5	19.6	21.2	22.8	39.4	42.3	45.8	49.3	53.3	56.7
Customs duties	31.8	35.0	37.0	40.7	44.3	47.7	50.9	54.2	57.7	61.3	65.1	69.5
Miscellaneous receipts	102.6	117.6	131.7	103.6	95.9	82.6	88.9	101.2	111.2	116.0	124.9	132.6
Allowance for immigration reform .....	.....	.....	2.0	12.0	28.0	39.0	45.0	47.0	55.0	64.0	77.0	87.0
Total, receipts	2,775.1	3,001.7	3,337.4	3,568.0	3,810.8	4,029.9	4,226.1	4,452.3	4,705.7	4,954.3	5,212.1	5,478.2
(On-budget)	(2,101.8)	(2,269.4)	(2,579.5)	(2,756.5)	(2,960.9)	(3,132.1)	(3,281.0)	(3,464.9)	(3,663.8)	(3,860.3)	(4,069.4)	(4,283.1)
(Off-budget)	(673.3)	(732.3)	(757.9)	(811.5)	(849.8)	(897.8)	(945.1)	(987.4)	(1,041.9)	(1,094.0)	(1,142.7)	(1,195.0)
Total receipts as a percentage of GDP	16.7	17.3	18.3	18.6	18.9	19.0	19.0	19.2	19.4	19.6	19.8	19.9

ESTIMATES OF GOVERNMENTAL RECEIPTS

Governmental receipts (on-budget and off-budget) are taxes and other collections from the public that result from the exercise of the Federal Government's sovereign or governmental powers. The difference between governmental receipts and outlays is the surplus or deficit.

The Federal Government also collects income from the public from market-oriented activities. Collections from these activities, which are subtracted from gross outlays, rather than added to taxes and other governmental receipts, are discussed in the next Chapter.

Total governmental receipts (hereafter referred to as "receipts") are estimated to be \$3,001.7 billion in 2014, an increase of \$226.6 billion or 8.2 percent from 2013. The

estimated increase in 2014 is partly attributable to the growth in personal income and corporate profits as the economy continues to recover from the recession. These sources of income affect payroll taxes and individual and corporation income taxes, the three largest sources of receipts. The expiration of the temporary reduction in the Social Security payroll tax rate for employees and self-employed individuals, and the increases in taxes on higher-income individuals that became effective January 1, 2013, also contribute to the growth in 2014 receipts. Receipts in 2014 are estimated to be 17.3 percent of Gross Domestic Product (GDP), which is higher than in 2013, when receipts were 16.7 percent of GDP.

Receipts are estimated to rise to \$3,337.4 billion in 2015, an increase of \$335.7 billion or 11.2 percent relative to 2014. Receipts are projected to grow at an average annual rate of 6.1 percent between 2015 and 2019, rising to \$4,226.1 billion. Receipts are projected to rise to \$5,478.2 billion in 2024, growing at an average annual rate of 5.3

percent between 2019 and 2024. This growth is largely due to assumed increases in incomes resulting from both real economic growth and inflation.

As a share of GDP, receipts are projected to increase from 17.3 percent in 2014 to 18.3 percent in 2015, and to rise to 19.9 percent in 2024.

BIPARTISAN BUDGET ACT OF 2013 AND PATHWAY FOR SGR REFORM ACT OF 2013 (PUBLIC LAW 113-67)

This Act, which was signed into law by President Obama on December 26, 2013, was the only major legislation affecting receipts that was enacted since transmittal of the Fiscal Year 2014 Budget to the Congress on April 10, 2013. The provisions of this Act that affect receipts are described below.

Increase the contributions of new employees to certain Federal defined benefit retirement plans.—For most individuals who join the Federal workforce after December 31, 2013, this Act increases employee contributions to the Federal Employee Retirement System and to the Foreign Service Pension System by 1.3 percentage points of pay. Pension benefits for such employees are unchanged.

Require States to use the Treasury Offset Program (TOP) to recover overpayments of unemployment compensation.—This Act requires States to use TOP to recover overpayments of unemployment compensation from claimants' tax refunds when such overpayments remain uncollected as of the date that is one year after the debt was finally determined to be due and collected.

Restrict access to the Death Master File (DMF).—The public DMF, which is available through the Department of Commerce (DOC) for a fee, and updated weekly by the Social Security Administration (SSA), contains the full name, Social Security number (SSN), date of birth, date of death, and the county, State, and zip code of

the last address on record for decedents. Although some DMF users need immediate access to the DMF for fraud prevention purposes, others have used the DMF for illegitimate purposes, including identity theft and the filing of fraudulent tax returns. This Act strengthens safeguards against identity theft and fraud by requiring that the DOC not disclose information contained in the DMF with respect to a deceased individual during the three-year period beginning on the date of the individual's death, unless the person requesting access to the information has been certified (under a process established by the Secretary of Commerce) to have a legitimate need to access the file immediately for specific purposes. This Act also imposes penalties on each improper disclosure or misuse of information obtained from the DMF.

Provide the Secretary of the Treasury authority to access prisoner data to prevent and identify improper payments.—This Act provides the Secretary of the Treasury access to information contained in the SSA's Prisoner Update Processing System for the purposes of tax administration, debt collection, and identifying, preventing, and recovering improper payments under Federally funded programs. This Act also expands the information the prisons are required to report to SSA to include release date, last known address, and prison assigned inmate number.

ADJUSTMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT (BBEDCA) BASELINE

The BBEDCA baseline, which is commonly used in budgeting and is defined in the statute, reflects, with some exceptions, the projected receipt and outlay levels under current law. However, current law includes a number of scheduled policy changes that are unlikely to occur and that prevent the BBEDCA baseline from serving as an appropriate benchmark for judging the effect of new legislation. For example, ATRA permanently extended most of the 2001/2003 tax cuts (as amended by subsequent legislation), but extended some tax relief provided to individuals and families under ARRA only through taxable year 2017. This tax relief includes increased refundability of the child tax credit, expansions in the EITC for larger families and married taxpayers filing a joint return, and increased assistance for qualified tuition and related expenses provided by the American Opportunity Tax Credit (AOTC).

The adjusted baseline permanently continues the tax relief provided to individuals and families under ARRA

that was extended only through taxable year 2017 under ATRA. A more general explanation of the adjusted baseline concept is provided in Chapter 25 of this volume, "Current Services Estimates."

Permanently extend increased refundability of the child tax credit.—ARRA increased the refundability of the child tax credit by reducing the earnings threshold for refundability to \$3,000 (unindexed) from \$10,000 (indexed after 2001). The adjusted baseline permanently extends the \$3,000 earnings threshold, effective for taxable years beginning after December 31, 2017.

Permanently extend EITC marriage penalty relief.—ARRA provided marriage penalty relief to married couples filing a joint return (regardless of the number of qualifying children) by increasing the amount by which the income thresholds for the phaseout of the EITC exceed the thresholds for other taxpayers from \$3,000 (indexed for inflation after 2008) to \$5,000 (indexed for inflation after 2009). The adjusted baseline permanently extends

the \$5,000 increase in the thresholds for the phaseout of the EITC, effective for taxable years beginning after December 31, 2017.

Permanently extend EITC for larger families.—Under ARRA, a fourth credit schedule was added providing a larger credit for families with three or more qualifying children. This fourth schedule is permanently extended under the adjusted baseline, effective for taxable years beginning after December 31, 2017.

Permanently extend AOTC.—The AOTC, which was created under ARRA, provides taxpayers a credit of up to

\$2,500 per eligible student per year for qualified tuition and related expenses paid for each of the first four years of the student's post-secondary education in a degree or certification program. The student must be enrolled at least half-time to receive the credit, which is partially refundable and phased out above specified income thresholds. The adjusted baseline extends the credit permanently, effective for taxable years beginning after December 31, 2017.

Table 12-2. ADJUSTMENTS TO THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT (BBEDCA) BASELINE ESTIMATES OF GOVERNMENTAL RECEIPTS

(In billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
BBEDCA baseline receipts	3,004.6	3,250.5	3,457.3	3,656.2	3,852.1	4,065.2	4,278.0	4,512.5	4,742.9	4,976.6	5,224.5	18,281.3	42,015.9
Adjustments to BBEDCA baseline:													
Extend increased refundability of the child tax credit ¹ .....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Extend EITC marriage penalty relief ¹ .....	.....	.....	.....	.....	-0.1	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-8.5
Extend EITC for larger families ¹ .....	.....	.....	.....	.....	-*	-*	-*	-*	-*	-*	-*	-*	-0.2
Extend AOTC ¹ .....	.....	.....	.....	.....	-0.7	-6.5	-6.0	-5.9	-5.6	-5.1	-4.9	-7.2	-34.7
Total, adjustments to BBEDCA baseline .....	.....	.....	.....	.....	-0.8	-7.9	-7.4	-7.3	-7.0	-6.6	-6.4	-8.7	-43.4
Adjusted baseline receipts	3,004.6	3,250.5	3,457.3	3,656.2	3,851.3	4,057.2	4,270.6	4,505.2	4,735.9	4,970.1	5,218.2	18,272.6	41,972.5

* \$50 million or less.

¹ This provision affects both receipts and outlays. Only the receipt effect is shown here. The outlay effects are listed below:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Extend increased refundability of the child tax credit	0.5	10.7	10.7	10.7	10.7	10.8	10.8	11.2	64.9
Extend EITC marriage penalty relief	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7
Extend EITC for larger families	0.1	1.9	1.9	2.0	2.0	2.0	2.1	2.0	12.0
Extend AOTC	3.3	5.9	5.9	5.9	5.9	5.8	3.3	32.6
Total, outlay effects of adjustments to BBEDCA baseline	0.7	15.9	18.6	18.7	18.7	18.8	18.8	16.6	110.2

RESERVE FOR LONG-RUN REVENUE-NEUTRAL BUSINESS TAX REFORM

The number of special deductions, credits, and other tax preferences provided to businesses in the Internal Revenue Code has expanded significantly since the last comprehensive tax reform effort nearly three decades ago. Such tax preferences help well-connected special interests, but do little for economic growth. To be successful in an increasingly competitive global economy, the Nation cannot afford to maintain a tax code burdened with such tax breaks; instead, the tax code needs to ensure that the United States is the most attractive place for entrepreneurship and business growth. Therefore, in this Budget, the President is calling on the Congress to immediately begin work on business tax reform and has laid out a framework that includes the following five elements: (1) eliminate loopholes and subsidies, broaden the base and cut the corporate tax rate; (2) strengthen American manufacturing and innovation; (3) strengthen

the international tax system; (4) simplify and cut taxes for small businesses; and (5) restore fiscal responsibility without adding to the deficit. Consistent with this framework, the Administration is offering a detailed set of business proposals that close loopholes and provide incentives for growth in a fiscally responsible manner.

The Administration proposes that these proposals be enacted as part of business tax reform that is revenue neutral over the long run. As a result, the net savings from these proposals, which are described below, are not reflected in the budget estimates of receipts and are not counted toward meeting the Administration's deficit reduction goals. However, the transition to a reformed business tax system will generate temporary revenue, for example from addressing \$1 to \$2 trillion of untaxed foreign earnings that U.S. companies have accumulated overseas and from reforming accelerated depreciation. The Budget

proposes to use these one-time savings to pay for one-time investments in transportation infrastructure.

Incentives for Manufacturing, Research, Clean Energy, and Insourcing and Creating Jobs

Provide tax incentives for locating jobs and business activity in the United States and remove tax deductions for shipping jobs overseas.—To provide a tax incentive for U.S. companies to move jobs into the United States from offshore, the Administration proposes to create a credit against income tax equal to 20 percent of the expenses paid or incurred in connection with insourcing a U.S. trade or business. In addition, to reduce incentives for U.S. companies to move jobs offshore, the proposal would disallow deductions for expenses paid or incurred in connection with outsourcing a U.S. trade or business. For this purpose, insourcing (outsourcing) a U.S. trade or business means reducing or eliminating a trade or business or line of business currently conducted outside (inside) the United States and starting up, expanding, or otherwise moving the same trade or business within (outside) the United States. Also for this purpose, expenses paid or incurred in connection with insourcing or outsourcing a U.S. trade or business are limited solely to expenses associated with the relocation of the trade or business and do not include capital expenditures, severance pay, or other assistance to displaced workers. The proposal would be effective for expenses paid or incurred after the date of enactment.

Enhance and make permanent the research and experimentation (R&E) tax credit.—A tax credit of 20 percent is provided for qualified research and experimentation expenditures above a base amount. An alternative simplified credit of 14 percent is also provided. These R&E tax credits expired with respect to expenditures paid or incurred after December 31, 2013. The Administration proposes to permanently extend these R&E tax credits for expenditures paid or incurred after December 31, 2013, and to raise the rate of the alternative simplified credit to 17 percent for expenditures paid or incurred after December 31, 2014.

Extend and modify certain employment tax credits, including incentives for hiring veterans.—The work opportunity tax credit (WOTC) provides incentives to employers for hiring individuals from one or more of nine targeted groups and the Indian employment tax credit provides incentives to employers for hiring individuals who are members of an Indian tribe. The Indian employment tax credit applies to increases in qualified wages and health insurance costs over qualified wages and health insurance costs incurred in calendar year 1993 (the base year). The Administration proposes to permanently extend both credits, which include the Returning Heroes and Wounded Warrior credits enacted in 2011. In addition, beginning in 2015, the Administration proposes to: (1) expand the definition of disabled veterans eligible for the WOTC to include disabled veterans who use the GI bill to receive education or training starting within one year after discharge and who are hired within six

months of leaving the program, and (2) modify the Indian employment tax credit by changing the base year wages and health insurance costs to the average of those costs in the two years prior to the year for which the credit is being claimed.

Modify and permanently extend renewable electricity production tax credit.—Current law provides production tax credits for renewable energy facilities, the construction of which began before the end of 2013. Qualified energy resources include wind, closed-loop biomass, open-loop biomass, geothermal energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy. Current law also provides an investment tax credit for energy property. A nonrefundable 10-percent business energy credit is allowed for the cost of new property that is equipment that either: (1) uses solar energy to generate electricity, to heat or cool a structure, or to provide solar process heat, or (2) is used to produce, distribute, or use energy derived from a geothermal deposit. The credit for solar energy property is increased to 30 percent for solar facilities placed in service prior to January 1, 2017. An energy investment credit is also available for qualifying geothermal heat pump property, small wind property, combined heat and power property fuel cells, and micro-turbines.

The Administration proposes to extend current law for facilities on which construction begins before the end of 2014. For facilities on which construction begins after December 31, 2014, the proposal would permanently extend the renewable electricity production tax credit and make it refundable. The renewable electricity production tax credit would also be available to otherwise eligible renewable electricity consumed directly by the producer rather than sold to an unrelated third party, to the extent that its production can be independently verified. The proposal also would allow solar facilities that currently qualify for the investment tax credit to claim the renewable electricity production tax credit in lieu of the investment tax credit through 2016. The permanent 10-percent business energy credit for solar and geothermal property would be repealed and solar facilities placed in service after 2016 would only be eligible for the renewable electricity production tax credit.

Modify and permanently extend the deduction for energy-efficient commercial building property.—The Administration proposes to extend the current deduction for energy-efficient building property for property placed in service before January 1, 2015. For property placed in service after calendar year 2014, the Administration proposes to offer fixed deductions for the installation of energy-efficient commercial building property that reach an energy savings target. In addition, the proposal would enable existing buildings to qualify for the deductions. The new deductions would be permanent.

Tax Relief for Small Business

Extend increased expensing for small business.—Business taxpayers were allowed to expense up to

\$500,000 in annual investment expenditures for qualifying property (including off-the-shelf computer software) placed in service in taxable years beginning in 2010 through 2013. The maximum amount that could be expensed was reduced by the amount by which the taxpayer's cost of qualifying property exceeded \$2,000,000. The Administration proposes to permanently extend these expensing and investment limits, effective for qualifying property placed in service in taxable years beginning after December 31, 2013. These limits would be indexed for inflation in taxable years beginning after 2013. Qualifying property would permanently include off-the-shelf computer software, but would not include certain real property.

Eliminate capital gains taxation on investments in small business stock.—A 100-percent exclusion from tax is provided for capital gains realized on the sale of qualified small business stock issued after September 27, 2010, and before January 1, 2014, and held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of \$10 million or 10 times the taxpayer's basis in the stock. For stock acquired prior to September 28, 2010, a portion of the excluded gain is subject to the Alternative Minimum Tax (AMT). A taxpayer may elect to roll over capital gain from the sale of qualified small business stock held for more than six months if other qualified small business stock is purchased during the 60-day period beginning on the date of sale. The exclusion is limited to individual investments and not the investments of a corporation. The Administration proposes to permanently extend the 100-percent exclusion, extend the rollover period from 60 days to six months for stock held at least three years, and eliminate the AMT preference for the excluded gain. The proposal would clarify that small business stock can include stock acquired upon the exercise of warrants and options if such stock rights are acquired at original issue from the corporation, and that all relevant holding periods for such stock start on the date the stock is issued by the corporation to the taxpayer. Reporting requirements would be tightened to ensure compliance. These proposals would be effective for qualified small business stock issued after December 31, 2013.

Increase the limitations for deductible new business expenditures and consolidate provisions for start-up and organizational expenditures.—A taxpayer generally is allowed to elect to deduct up to \$5,000 of start-up expenditures in the taxable year in which the active trade or business begins. Similarly, a taxpayer may also elect to deduct up to \$5,000 of organizational expenditures in the taxable year in which the corporation or partnership begins business. In each case, the \$5,000 amount is reduced (but not below zero), by the amount by which such expenditures exceed \$50,000. Effective only for taxable years beginning in 2010, the Small Business Jobs Act of 2010 increased the amount of start-up expenditures a taxpayer may elect to deduct to \$10,000; that amount was reduced (but not below zero) by the amount by which such start-up expenditures exceeded \$60,000. To lower the tax cost of investigating new business opportunities and investing in new business activities, and to simplify tax ad-

ministration and reduce new business owners' tax compliance burden, the Administration proposes to consolidate the Internal Revenue Code provisions relating to start-up expenditures and organizational expenditures and to double permanently, from \$10,000 to \$20,000, the combined amount of new business expenditures that a taxpayer may elect to deduct, effective for tax years ending on or after the date of enactment. That amount would be reduced (but not below zero) by the amount by which the combined new business expenditures exceed \$120,000.

Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance.—The Affordable Care Act provides a tax credit to help small employers provide health insurance for employees and their families. To claim the credit, a qualified employer must have fewer than 25 full-time equivalent employees during the taxable year with annual full-time equivalent employee wages that average less than \$50,000 and make non-elective uniform contributions of at least 50 percent of the premium. For taxable years beginning after 2013, the credit is generally available only for health insurance purchased through an Affordable Insurance Exchange and only for a maximum coverage period of two consecutive taxable years beginning with the first year in which the employer or any predecessor first offers one or more qualified plans to its employees through an exchange. The maximum credit, which is a specified percentage of premiums the employer pays during the taxable year, is reduced on a sliding scale between 10 and 25 full-time equivalent employees as well as between average annual wages of \$25,000 and \$50,000. Because the reductions are additive, an employer with fewer than 25 full-time equivalent employees paying average wages of less than \$50,000 might not be eligible for any tax credit. For taxable years beginning after 2013, the qualified amount of the employer contribution is reduced if the premium for the coverage purchased exceeds the average premium for the small group market in the rating areas in which the employee enrolls for coverage.

The Administration proposes to expand the credit to employers with up to 50 (rather than 25) full-time equivalent employees and to begin the phaseout of the maximum credit at 20 full-time equivalent employees (the credit would be reduced on a sliding scale between 20 and 50, rather than between 10 and 25, full-time equivalent employees). In addition, there would be a change to the coordination of the phaseouts of the credit that apply as the number of employees and average wages increase (using a formula that is multiplicative rather than additive) so as to provide a more gradual combined phaseout and to ensure that employers with fewer than 50 employees and an average wage less than \$50,000 may be eligible for the credit, even if they are nearing the end of both phaseouts. The Administration also proposes to reduce taxpayer complexity by eliminating the requirement that an employer make a uniform contribution on behalf of each employee (although applicable non-discrimination laws will still apply), and eliminating the reduction in the qualifying contribution for premiums that exceed the av-

erage premium in the rating area. The proposal would be effective for taxable years beginning after December 31, 2013.

Incentives to Promote Regional Growth

Modify and permanently extend the New Markets tax credit (NMTC).—The NMTC is a 39-percent credit for qualified equity investments made in qualified community development entities that are held for a period of seven years. The NMTC provision expired at the end of 2013. The Administration proposes to permanently extend the NMTC. Up to \$5 billion in qualifying investment would be allowed in each year beginning in 2014. The proposal would also permit the NMTC to permanently offset AMT liability.

Restructure assistance to New York City, provide tax incentives for transportation infrastructure.—Some of the tax benefits that were provided to New York following the attacks of September 11, 2001, likely will not be usable in the form in which they were originally provided. State and local officials in New York have concluded that improvements to transportation infrastructure and connectivity in the Liberty Zone would have a greater impact on recovery and continued development than would some of the existing tax incentive provisions. The Administration proposes to provide tax credits to New York State and New York City for expenditures relating to the construction or improvement of transportation infrastructure in or connecting to the New York Liberty Zone. The tax credit would be allowed in each year from 2015 to 2024, inclusive, subject to an annual limit of \$200 million (for a total of \$2 billion in tax credits), and would be divided evenly between the State and the City. Any credits not used in a given year would be added to the \$200 million annual limit for the following year, including years after 2024. Similarly, any expenditures that exceeded the limit would be carried forward and subtracted from the annual limit in the following years. The credit would be allowed against any payments (other than payments of excise taxes and Social Security and Medicare payroll taxes) made by the State and City under any provision of the Internal Revenue Code, including income tax withholding.

Reform and expand the Low-Income Housing tax credit (LIHTC).—The Administration proposes several changes to the rules governing LIHTCs. First, States would be empowered to convert some private-activity-bond volume cap into authority to allocate additional LIHTCs, effective for volume cap received by States for calendar years beginning after the date of enactment. This proposal would give each State more flexibility to address its highest affordable housing priorities. Also, a building would be able to qualify for 30-percent-present-value LIHTCs without issuing bonds if the building receives an adequate allocation of tax-exempt volume cap effective for projects that are allocated volume cap after the date of enactment. This proposal would eliminate some transaction costs and avoid the issuance of private activity bonds that are not needed for financing.

Second, to serve households in greater need and to provide incentives for creating mixed-income housing, the Administration proposes to allow projects to comply with an income-averaging rule under which the income limits for at least 40 percent of the units in a project could average to not greater than 60 percent of area median income (AMI). None of these units could be occupied by an individual with income greater than 80 percent of AMI. In the case of rehabilitation projects that contain units that receive ongoing subsidies (e.g., rental assistance, operating subsidies, or interest subsidies) administered by the Department of Housing and Urban Development or the Department of Agriculture, a special rule would permit certain non-income-qualified tenants to remain in residence without impairing the LIHTCs earned by the project. The provision would apply to LIHTC elections that are made after the date of enactment.

Third, the Administration proposes to change the formulas that produce the rates for the credits that are subject to the LIHTC allocation cap. In lieu of the nine-percent floor that expired for allocations made after 2013, the revised formulas would produce annual allocated-credit rates that are somewhat higher than the rates that today's present-value formulas produce and would result in a more consistent benefit over the interest rate spectrum than under current law. The proposal would apply to allocations made on or after the date of enactment.

Fourth, the Administration proposes to add preservation of Federally-assisted affordable housing to the selection criteria for LIHTC allocation. This factor would join the 10 criteria that State housing agencies must include in the qualified allocation plans that they consider in deciding which applicants receive LIHTCs. The proposal would apply to allocations made in calendar years beginning after the date of enactment.

Fifth, to increase the demand for LIHTCs, the Administration proposes to make them beneficial to real estate investment trusts (REITs). If a REIT is entitled to LIHTCs for a taxable year, the REIT would be able to designate as tax exempt some of the dividends that it distributes to its shareholders. The proposal would be effective for taxable years that end after the date of enactment.

Finally, under the Administration's proposal, protection for victims of domestic violence would become a mandatory provision of the long-term-use agreement that the Internal Revenue Code requires between each LIHTC taxpayer and the State in which the taxpayer's LIHTC building is located. To make the protection meaningful, victims of domestic violence would be given a right to enforce the agreement in State courts.

Reform U.S. International Tax System

Defer deduction of interest expense related to deferred income of foreign subsidiaries.—Under current law, a taxpayer that incurs interest expense properly allocable and apportioned to foreign-source income may be able to deduct that expense even if some or all of the foreign-source income is not subject to current U.S. taxation. To provide greater matching of the timing of inter-

est expense deductions and recognition of associated income, the Administration proposes to defer the deduction of interest expense properly allocable and apportioned to stock of foreign subsidiaries to the extent the taxpayer's share of the income of such subsidiaries is deferred. The proposal would be effective for taxable years beginning after December 31, 2014.

Determine the foreign tax credit on a pooling basis.—Under current law, a taxpayer may choose to claim a credit against its U.S. income tax liability for income, war profits, and excess profits taxes paid or accrued during the taxable year to any foreign country or any possession of the United States, subject to certain limitations. The reduction to two foreign tax credit limitation categories, for passive category income and general category income under the American Jobs Creation Act of 2004, enhanced U.S. taxpayers' ability to reduce the residual U.S. tax on foreign-source income through "cross-crediting." Under the Administration's proposal, a taxpayer would be required to determine foreign tax credits from the receipt of income with respect to stock of a foreign subsidiary on a consolidated basis for all its foreign subsidiaries. Foreign tax credits from the receipt of income with respect to stock of a foreign subsidiary would be based on the consolidated earnings and profits and foreign taxes of all the taxpayer's foreign subsidiaries. The proposal would be effective for taxable years beginning after December 31, 2014.

Tax currently excess returns associated with transfers of intangibles offshore.—The Internal Revenue Service (IRS) has broad authority to allocate income among commonly controlled businesses under section 482 of the Internal Revenue Code. Notwithstanding the transfer pricing rules, there is evidence of income shifting offshore, including through transfers of intangible rights to subsidiaries that bear little or no foreign income tax. Under the Administration's proposal, if a U.S. parent transfers an intangible to a controlled foreign corporation (CFC) in circumstances that demonstrate excessive income shifting from the United States, then an amount equal to the excessive return would be treated as subpart F income. The proposal would be effective for transactions in taxable years beginning after December 31, 2014.

Limit shifting of income through intangible property transfers.—Under current law, there is a lack of clarity regarding the scope of the definition of intangible property under section 936(h)(3)(B) of the Internal Revenue Code. This definition of intangible property applies for purposes of the special rules under section 367 of the Internal Revenue Code relating to transfers of intangible property by a U.S. person to a foreign corporation and the allocation of income and deductions among taxpayers under section 482 of the Internal Revenue Code to prevent inappropriate shifting of income outside the United States. The Administration's proposal would provide that the definition of intangible property under section 936(h)(3)(B) (and therefore for purposes of sections 367 and 482) also includes workforce in place, goodwill, and going concern value, and any other item owned or controlled by a taxpayer that is not a tangible or financial

asset and that has substantial value independent of the services of any individual. The proposal would be effective for taxable years beginning after December 31, 2014.

Disallow the deduction for excess non-taxed reinsurance premiums paid to affiliates.—Under the Administration's proposal, a U.S. insurance company would be denied a deduction for certain non-taxed reinsurance premiums paid to foreign affiliates, offset by an exclusion for return premiums, ceding commissions, reinsurance recovered, or other amounts received from such affiliates. The proposal would be effective for policies issued in taxable years beginning after December 31, 2014.

Restrict deductions for excessive interest of members of financial reporting groups.—Section 163(j) of the Internal Revenue Code generally places a cap on the amount of interest expense paid to related parties (and to unrelated parties on debt guaranteed by a related party) that a corporation can deduct relative to its U.S. earnings, but does not consider whether a foreign-parented group's U.S. operations are more leveraged than the rest of the group's operations. In lieu of applying section 163(j), the Administration's proposal would limit the U.S. interest expense deduction of an entity that is a member of a group that prepares consolidated financial statements to the member's interest income plus the member's proportionate share of the group's net interest expense determined based on the member's proportionate share of the group's earnings (with certain adjustments). If a member fails to substantiate its share of the group's net interest expense, or a member so elects, the member's interest deduction alternatively would be limited to 10 percent of the member's U.S. adjusted taxable income. The proposal would not apply to financial services entities or financial reporting groups that would otherwise report less than \$5 million of net U.S. interest expense for a taxable year. The proposal would be effective for taxable years beginning after December 31, 2014.

Modify tax rules for dual capacity taxpayers.—The Administration proposes to tighten the foreign tax credit rules that apply to taxpayers that are subject to a foreign levy and that also receive (directly or indirectly) a specific economic benefit from the levying country (so-called "dual capacity" taxpayers). The proposal would be effective for taxable years beginning after December 31, 2014.

Tax gain from the sale of a partnership interest on look-through basis.—Under the Administration's proposal, gain or loss from the sale of a partnership interest would be treated as effectively connected with the conduct of a trade or business in the United States and subject to U.S. income taxation to the extent attributable to the partner's share of the partnership's unrealized gain or loss from property used in a trade or business in the United States. The proposal would also require the purchaser of a partnership interest to withhold 10 percent of the purchase price to ensure the seller's compliance. The proposal would be effective for sales and exchanges after December 31, 2014.

Prevent use of leveraged distributions from related corporations to avoid dividend treatment.—The

Administration proposes to tax immediately a non-dividend distribution from a corporation (domestic or foreign) to the extent the distribution was funded by a related corporation with a principal purpose of avoiding dividend treatment from a distribution directly from the related corporation to the distributee shareholder. The proposal would be effective for distributions made after December 31, 2014.

Extend section 338(h)(16) to certain asset acquisitions.—Under section 338 of the Internal Revenue Code, taxpayers can elect to treat the acquisition of the stock of a corporation in a taxable transaction as an acquisition of the corporation's assets for U.S. tax purposes. Because this election does not alter the foreign tax consequences of the transaction, section 338(h)(16) limits the ability of taxpayers to claim additional foreign tax credits by generally requiring the seller to continue to treat the gain recognized on the transaction as gain from the sale of stock for foreign tax credit purposes. The Administration proposes to extend the rules limiting the ability of taxpayers to claim additional foreign tax credits as a result of a section 338 election to other similar transactions that are treated as asset acquisitions for U.S. tax purposes but that are treated as acquisitions of an equity interest in an entity for foreign tax purposes. The proposal would be effective for transactions occurring after December 31, 2014.

Remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated.—Under the Administration's proposal, foreign income taxes paid by a foreign corporation would be reduced for U.S. tax purposes if a redemption transaction results in the elimination of earnings and profits of the foreign corporation. The foreign income taxes reduced under the proposal would be the foreign income taxes that are associated with the eliminated earnings and profits. The proposal would be effective for transactions occurring after December 31, 2014.

Create a new category of Subpart F income for transactions involving digital goods or services.—The existing categories of subpart F income do not adequately address mobile income earned from providing digital goods and services. This enables CFCs to shift income related to digital goods and services to low-tax jurisdictions, in many cases eroding the U.S. tax base. The Administration proposes to create a new category of subpart F income, foreign base company digital income, which generally would include income of a CFC from the lease or sale of a digital copyrighted article or from the provision of a digital service in cases where the CFC uses intangible property developed by a related party (including property developed under a cost sharing arrangement) to produce the income and the CFC does not, through its own employees, make a substantial contribution to the development of the property or services that give rise to the income. An exception would apply for income derived from consumers in the CFC's country of incorporation. The proposal would be effective for taxable years beginning after December 31, 2014.

Prevent avoidance of foreign base company sales income through manufacturing service arrangements.—In order for the foreign base company sales income rules of subpart F to apply, a CFC generally must engage in both a purchase and subsequent sale of personal property where such property is purchased from, or sold to, a related person. Under existing law, taxpayers take the position that a CFC can avoid foreign base company sales income by structuring the related party transaction as the provision of a manufacturing service to the CFC rather than a purchase of the property by the CFC. The Administration proposes to expand the category of foreign base company sales income to include income of a CFC from the sale of property manufactured on behalf of the CFC by a related person, regardless of whether the CFC is characterized as obtaining the property through a purchase transaction or through a manufacturing service. The existing exception to foreign base company sales income would continue to apply. The proposal would be effective for taxable years beginning after December 31, 2014.

Restrict the use of hybrid arrangements that create stateless income.—Taxpayers currently use a variety of cross-border hybrid arrangements to claim deductions in the United States without corresponding inclusions in the payee jurisdiction. Similarly, taxpayers use hybrid arrangements to claim multiple deductions for the same payment in different jurisdictions. The Administration proposes to deny deductions for interest and royalty payments paid to related parties when either: (1) as a result of a hybrid arrangement there is no corresponding inclusion to the recipient in the foreign jurisdiction, or (2) a hybrid arrangement would permit the taxpayer to claim an additional deduction for the same payment in more than one jurisdiction. Regulatory authority would be granted to the Department of the Treasury to issue any regulations necessary to carry out the purposes of this proposal, including regulations that would: (1) deny interest and royalty deductions arising from certain conduit arrangements that involve a hybrid arrangement between at least two of the parties to the arrangement; (2) deny interest and royalty deductions arising from certain hybrid arrangements involving unrelated parties in appropriate circumstances, such as structured transactions; and (3) deny all or a portion of a deduction claimed with respect to an interest or royalty payment that, as a result of the hybrid arrangement, is subject to inclusion in the recipient's jurisdiction pursuant to a preferential regime that has the effect of reducing the generally applicable statutory rate by at least 25 percent. The proposal would be effective for taxable years beginning after December 31, 2014.

Limit the application of exceptions under Subpart F for certain transactions that use reverse hybrids to create stateless income.—Under current law, if a U.S. person owns an interest in a reverse hybrid, which is an entity that is treated as a corporation for U.S. tax purposes but as fiscally transparent under the laws of the foreign jurisdiction in which it is created or organized, income earned by the reverse hybrid generally would not be

subject to tax currently in either the United States or the foreign jurisdiction. Even if the reverse hybrid is treated as a CFC, section 954(c)(3) of the Internal Revenue Code and, when in effect, section 954(c)(6) could apply to exclude from treatment as subpart F income certain interest, rent, and royalty payments received by the reverse hybrid from certain related persons. As a result, related parties can make deductible payments to the reverse hybrid without creating any corresponding inclusion. The Administration proposes to disallow the application of sections 954(c)(3) and 954(c)(6) to payments made to foreign reverse hybrids held directly by a U.S. owner when such amounts are treated as deductible payments by a related foreign payor. The proposal would be effective for taxable years beginning after December 31, 2014.

Limit the ability of domestic entities to expatriate.—Section 7874 of the Internal Revenue Code applies to certain transactions (known as “inversion transactions”) in which a U.S. corporation is replaced by a foreign corporation as the parent company of a worldwide affiliated group. Under current law, if an inversion transaction occurs, certain adverse tax consequences apply depending upon whether the continuing ownership of historical shareholders of the U.S. corporation in the foreign acquiring corporation is either 80 percent or more (in which case the foreign acquiring corporation is treated as a domestic corporation for all U.S. tax purposes) or at least 60 percent but less than 80 percent (in which case the foreign status of the acquiring corporation is respected but other penalties apply). The Administration proposes to broaden the definition of an inversion transaction by reducing the 80-percent shareholder continuity threshold to a greater-than-50-percent threshold, and to eliminate the 60-percent threshold. The Administration also proposes to provide that, regardless of the level of shareholder continuity, an inversion transaction will occur if the affiliated group that includes the foreign acquiring corporation has substantial business activities in the United States and the foreign acquiring corporation is primarily managed and controlled in the United States. The proposal would be effective for transactions that are completed after December 31, 2014.

Reform Treatment of Financial and Insurance Industry Institutions and Products

Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary.—Under current law, derivative contracts are subject to various rules on timing and character. The Administration’s proposal would require that gain or loss from a derivative contract be reported on an annual basis as if the contract were sold for its fair market value no later than the last business day of the taxpayer’s taxable year. Gain or loss resulting from the contract would be treated as ordinary and as attributable to a trade or business of the taxpayer. A derivative contract would be broadly defined to include any contract the value of which is determined, directly or indirectly, in whole or in part, by actively traded property. A derivative contract that is

embedded in another financial instrument or contract is subject to mark to market if the derivative by itself would be marked. In addition, a taxpayer that enters into a derivative contract that substantially diminishes the risk of loss on actively traded stock that is not otherwise marked to market would be required to mark the stock to market with preexisting gain recognized at that time and loss recognized when the financial instrument would have been recognized in the absence of the straddle. An exception from mark-to-market treatment would be provided for business hedging transactions. The proposal would apply to contracts entered into after December 31, 2014.

Modify rules that apply to sales of life insurance contracts.—The seller of a life insurance contract generally must report as taxable income the difference between the amount received from the buyer and the adjusted basis of the contract. When death benefits are received under the contract, the buyer is taxed on the excess of those benefits over the amounts paid for the contract, unless an exception to a “transfer-for-value” rule applies. Information reporting may not always be required in circumstances involving the purchase of a life insurance contract. In response to the growth in the number and size of life settlement transactions, the Administration proposes to expand information reporting on the sale of life insurance contracts and the payment of death benefits on contracts that were sold. The proposal also would modify the transfer-for-value rule by eliminating the exception that currently applies if the buyer is a partner of the insured, a partnership in which the insured is a partner, or a corporation in which the insured is a shareholder or officer. Instead, under the proposal, the transfer-for-value rule would not apply in the case of a transfer to the insured, or to a partnership or a corporation of which the insured owns at least 20 percent of the partnership or corporation. Other exceptions to the rule would continue to apply. The proposal would apply to sales or assignments of interests in life insurance policies and payments of death benefits for taxable years beginning after December 31, 2014.

Modify proration rules for life insurance company general and separate accounts.—Under current law, a life insurance company is required to “prorate” its net investment income between a company’s share and the policyholders’ share. The result of this proration calculation is used to limit the funding of tax-deductible reserve increases with tax-preferred income, such as certain corporate dividends and tax-exempt interest. The complexity of this regime has generated significant controversy between life insurance companies and the IRS. In some cases, the existing regime produces a company’s share that exceeds the company’s actual economic interest in the underlying income. The Administration proposes to replace this regime with one that is much simpler. Under the proposal, the general account dividends received deduction (DRD), tax-exempt interest, and increases in certain policy cash values of life insurance companies would be subject to the same flat policyholders’ proration percentage that applies to non-life insurance companies (15 percent under current law); the DRD with regard to separate account dividends would be based on the propor-

tion of reserves to total assets of the account. The proposal would be effective for taxable years beginning after December 31, 2014.

Expand pro rata interest expense disallowance for corporate-owned life insurance.—The interest deductions of a business other than an insurance company are reduced to the extent the interest is allocable to unborrowed policy cash values on life insurance and annuity contracts. The purpose of this pro rata disallowance is to prevent the deduction of interest expense that is allocable to inside buildup that is either tax-deferred or not taxed at all. A similar disallowance applies with regard to reserve deductions of an insurance company. A current-law exception to this rule applies to contracts covering the lives of officers, directors, employees, and 20-percent owners. The Administration proposes to repeal the exception for officers, directors, and employees unless those individuals are also 20-percent owners of the business that is the owner or beneficiary of the contracts. Thus, purchases of life insurance by small businesses and other taxpayers that depend heavily on the services of a 20-percent owner would be unaffected, but the funding of deductible interest expenses with tax-exempt or tax-deferred inside buildup would be curtailed. The proposal would apply to contracts issued after December 31, 2014, in taxable years ending after that date.

Eliminate Fossil Fuel Preferences

Eliminate fossil fuel tax preferences.—Current law provides a number of credits and deductions that are targeted towards certain oil, natural gas, and coal activities. In accordance with the President's agreement at the G-20 Summit in Pittsburgh to phase out subsidies for fossil fuels so that the Nation can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels. The following tax preferences available for oil and natural gas activities are proposed to be repealed beginning in 2015: (1) the enhanced oil recovery credit for eligible costs attributable to a qualified enhanced oil recovery project; (2) the credit for oil and natural gas produced from marginal wells; (3) the expensing of intangible drilling costs; (4) the deduction for costs paid or incurred for any tertiary injectant used as part of a tertiary recovery method; (5) the exception to passive loss limitations provided to working interests in oil and natural gas properties; (6) the use of percentage depletion with respect to oil and natural gas wells; (7) the ability to claim the domestic production manufacturing deduction against income derived from the production of oil and natural gas; and (8) two-year amortization of independent producers' geological and geophysical expenditures, instead allowing amortization over the same seven-year period as for integrated oil and natural gas producers. The following tax preferences available for coal activities are proposed to be repealed beginning in 2015: (1) expensing of exploration and development costs, (2) percentage depletion for hard mineral fossil fuels, (3) capital gains treatment for royalties, and (4) the ability to claim the domestic manufacturing deduction against

income derived from the production of coal and other hard mineral fossil fuels.

Other Revenue Changes and Loophole Closers

Repeal the excise tax credit for distilled spirits with flavor and wine additives.—Distilled spirits are taxed at a rate of \$13.50 per proof gallon. Some distilled spirits are flavored with wine or other additives. Current law allows a credit against the \$13.50 per proof gallon excise tax on distilled spirits for flavor and wine additives. As a result of the credit, flavorings of up to 2.5 percent of the distilled spirit mixture are tax exempt, and wine in a distilled spirits mixture is taxed at the lower rate on wine. Thus, the credit reduces the effective excise tax rate paid on distilled spirits with such content. The proposal would repeal this credit effective for all spirits produced in or imported into the United States after December 31, 2014.

Repeal last-in, first-out (LIFO) method of accounting for inventories.—Under the LIFO method of accounting for inventories, it is assumed that the cost of the items of inventory that are sold is equal to the cost of the items of inventory that were most recently purchased or produced. The Administration proposes to repeal the use of the LIFO accounting method for Federal tax purposes, effective for taxable years beginning after December 31, 2014. Assuming inventory costs rise over time, taxpayers required to change from the LIFO method under the proposal generally would experience a permanent reduction in their deductions for cost of goods sold and a corresponding increase in their annual taxable income as older, cheaper inventory is taken into account in computing taxable income. Taxpayers required to change from the LIFO method also would be required to change their method of accounting for inventory and report their beginning-of-year inventory at its first-in, first-out (FIFO) value in the year of change. Taxpayers would recognize any income resulting from the change in accounting ratably over 10 years.

Repeal lower-of-cost-or-market inventory accounting method.—The Administration proposes to prohibit the use of the lower-of-cost-or-market and subnormal goods methods of inventory accounting, which currently allow certain taxpayers to take cost-of-goods-sold deductions on certain merchandise before the merchandise is sold. The proposed prohibition would be effective for taxable years beginning after December 31, 2014. Taxpayers would recognize any income resulting from the change in accounting method ratably over four years.

Modify depreciation rules for purchases of general aviation passenger aircraft.—Under current law, airplanes used in commercial and contract carrying of passengers and freight generally are depreciated over seven years. Airplanes not used in commercial or contract carrying of passengers or freight, such as corporate jets, generally are depreciated over five years. The Administration proposes to increase the depreciation recovery period for general aviation airplanes that carry passengers to seven years, effective for such airplanes placed in service after December 31, 2014.

Repeal gain limitation for dividends received in reorganization exchanges.—If, as part of a corporate reorganization, a taxpayer receives both stock and other property that cannot be received without the recognition of gain (often referred to as “boot”), the exchanging shareholder recognizes gain but it is limited to the lesser of the gain realized or the amount of boot received. This limit can result in distributions of property in reorganizations with minimal U.S. tax consequences. The Administration proposes to repeal this limitation in reorganization transactions in which the acquiring corporation is either domestic or foreign and the shareholder’s exchange has the effect of the distribution of a dividend. The Administration also proposes to align the available pool of earnings and profits for such distributions with that for ordinary distributions. The proposal would be effective for taxable years beginning after December 31, 2014.

Expand the definition of substantial built-in loss for purposes of partnership loss transfers.—Upon a sale or exchange of a partnership interest, certain partnerships, including partnerships that have a substantial built-in loss in their assets, must adjust the bases of those assets. A substantial built-in loss is defined by reference to the partnership’s adjusted basis – that is, there is a substantial built-in loss if the partnership’s adjusted basis in its assets exceeds by more than \$250,000 the fair market value of such property. Although the provision prevents the duplication of losses where the partnership has a substantial built-in loss in its assets, it does not prevent the duplication of losses where the transferee partner would be allocated a loss in excess of \$250,000 if the partnership sold all of its assets, but the partnership itself does not have a substantial built-in loss in its assets. Accordingly, the Administration proposes to measure a substantial built-in loss also by reference to whether the transferee would be allocated a loss in excess of \$250,000 if the partnership sold all of its assets immediately after the sale or exchange. The proposal would apply to sales or exchanges after the date of enactment.

Extend partnership basis limitation rules to non-deductible expenditures.—A partner’s distributive share of loss is allowed as a deduction only to the extent of the partner’s adjusted basis in its partnership interest at the end of the partnership year in which such loss occurred. Any excess is allowed as a deduction at the end of the partnership year in which the partner has sufficient basis in its partnership interest to take the deductions. This basis limitation does not apply to partnership expenditures that are not deductible in computing its taxable income and not properly chargeable to capital account. Thus, even though a partner’s distributive share of nondeductible expenditures reduces the partner’s basis in its partnership interest, such items are not subject to the basis limitation and the partner may deduct or credit them currently even if the partner’s basis in its partnership interest is zero. The Administration proposes to allow a partner’s distributive share of expenditures not deductible in computing the partnership’s taxable income and not properly chargeable to capital account only to the extent of the partner’s adjusted basis in its partner-

ship interest at the end of the partnership year in which such expenditure occurred. The proposal would apply to a partnership’s taxable year beginning on or after the date of enactment.

Limit the importation of losses under related party loss limitation rules.—If a loss sustained by a transferor is disallowed under section 267(a)(1) or section 707(b)(1) of the Internal Revenue Code because the transferor and transferee are related, then the transferee may reduce any gain the transferee later recognizes on a disposition of the transferred asset by the amount of the loss disallowed to the transferor. This has the effect of shifting the benefit of the loss from the transferor to the transferee. Thus, losses can be imported where gain or loss with respect to the property is not subject to Federal income tax in the hands of the transferor immediately before the transfer but any gain or loss with respect to the property is subject to Federal income tax in the hands of the transferee immediately after the transfer. To prevent this, the Administration proposes to limit application of the gain reduction rule to the extent gain or loss with respect to the property is not subject to Federal income tax in the hands of the transferor immediately before the transfer but any gain or loss with respect to the property is subject to Federal income tax in the hands of the transferee immediately after the transfer. The proposal would apply to transfers made after the date of enactment.

Deny deduction for punitive damages.—The Administration proposes to deny tax deductions for punitive damages paid or incurred by a taxpayer, whether upon a judgment or in settlement of a claim. Where the liability for punitive damages is covered by insurance, such damages paid or incurred by the insurer would be included in the gross income of the insured person. This proposal would apply to damages paid or incurred after December 31, 2015.

Modify like-kind exchange rules for real property.—Under section 1031 of the Internal Revenue Code, no gain or loss is recognized when business or investment property is exchanged for “like-kind” business or investment property. The Administration proposes to limit the amount of capital gain deferred under section 1031 from the exchange of real property to \$1,000,000 (indexed for inflation) per taxpayer per taxable year. The proposal would be effective for like-kind exchanges completed after December 31, 2014.

Conform corporate ownership standards.—Tax-free treatment of corporate reorganizations, distributions, and incorporations generally turns on whether shareholders acquire or retain “control” of the relevant corporation. For this purpose, control is defined as the ownership of 80 percent of the corporation’s voting stock and 80 percent of the number of shares of all other classes of stock of the corporation. In contrast, the ownership standard for corporate affiliation (required for filing consolidated returns, tax-free parent-subsidary liquidations, and treating certain stock dispositions as asset sales) is the direct or indirect ownership by a parent corporation of at least 80 percent of the total voting power of another corporation’s stock and at least 80 percent of the total value of

that other corporation's stock. The control test for tax-free reorganizations, distributions, and incorporations is easily manipulated by allocating voting power among the shares of a corporation, and the absence of a value component allows shareholders to retain voting control of a corporation but to economically "sell" a significant amount of the value of the corporation. In addition, the existence of two ownership standards in the corporate tax area causes unnecessary complexity and traps for the unwary. The Administration proposes to substitute the ownership test for affiliation for the control test used in connection with tax-free incorporations, distributions, and reorganizations. The proposal would be effective for transactions occurring after December 31, 2014.

Prevent elimination of earnings and profits through distributions of certain stock.—To avoid taxing distributions as dividends in a subsequent period, corporate groups reduce earnings and profits by distributing

high-basis/low-value subsidiary stock to the shareholders in the preceding period. Under current law, the distributing corporation may not recognize any loss on the distributed built-in loss stock, but is permitted to permanently eliminate an amount of its earnings and profits equivalent to the adjusted basis in the distributed built-in loss stock, as if the loss had been recognized but without any economic diminution in the assets of the distributing corporation. The proposal would amend the rules governing earnings and profits so that earnings and profits are reduced only by the distributing corporation's basis in the high-basis distributed stock, determined without regard to basis adjustments resulting from actual or deemed dividend equivalent redemptions or any series of distributions or transactions undertaken with a view to create and distribute high-basis stock of any corporation. The proposal would be effective upon enactment.

Table 12-3. RESERVE FOR LONG-RUN REVENUE-NEUTRAL BUSINESS TAX REFORM

(In millions of dollars)

[illegible]

Table 12-3. RESERVE FOR LONG-RUN REVENUE-NEUTRAL BUSINESS TAX REFORM—Continued

(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
Remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated		13	27	36	46	50	50	50	50	50	51	172	423
Create a new category of Subpart F income for transactions involving digital goods or services		585	1,004	1,055	1,107	1,163	1,221	1,282	1,346	1,413	1,484	4,914	11,660
Prevent avoidance of foreign base company sales income through manufacturing service arrangements		1,235	2,120	2,226	2,337	2,454	2,576	2,705	2,840	2,983	3,132	10,372	24,608
Restrict the use of hybrid arrangements that create stateless income		38	66	73	80	88	97	107	117	129	142	345	937
Limit the application of exceptions under Subpart F for certain transactions that use reverse hybrids to create stateless income		67	115	121	127	133	140	147	154	162	170	563	1,336
Limit the ability of domestic entities to expatriate		150	415	706	1,025	1,375	1,756	2,173	2,627	3,120	3,657	3,671	17,004
Total, reform U.S. international tax system		13,900	23,933	25,444	27,045	28,595	30,197	29,923	30,398	32,348	34,522	118,917	276,305
Reform treatment of financial and insurance industry institutions and products:													
Require that derivative contracts be marked to market with resulting gain or loss treated as ordinary		2,583	4,674	3,900	2,600	1,655	1,132	697	506	528	529	15,412	18,804
Modify rules that apply to sales of life insurance contracts		14	42	46	48	50	54	56	58	62	65	200	495
Modify proration rules for life insurance company general and separate accounts ..		353	607	652	682	691	688	676	668	657	643	2,985	6,317
Extend pro rata interest expense disallowance for corporate-owned life insurance		32	91	168	268	392	540	706	900	1,109	1,340	951	5,546
Total, reform treatment of financial and insurance industry institutions and products		2,982	5,414	4,766	3,598	2,788	2,414	2,135	2,132	2,356	2,577	19,548	31,162
Eliminate fossil fuel preferences:													
Eliminate oil and natural gas preferences:													
Repeal enhanced oil recovery credit ²													
Repeal credit for oil and natural gas produced from marginal wells ²													
Repeal expensing of intangible drilling costs		2,317	3,244	2,348	1,803	1,469	1,110	665	463	464	467	11,181	14,350
Repeal deduction for tertiary injectants .		10	10	10	10	10	10	10	10	10	10	50	100
Repeal exception to passive loss limitations for working interests in oil and natural gas properties		5	7	7	7	6	6	6	5	5	5	32	59
Repeal percentage depletion for oil and natural gas wells		1,502	1,568	1,469	1,375	1,306	1,261	1,219	1,181	1,089	1,060	7,220	13,030
Repeal domestic manufacturing deduction for oil and natural gas production		963	1,614	1,585	1,522	1,453	1,421	1,410	1,408	1,416	1,426	7,137	14,218
Increase geological and geophysical amortization period for independent producers to seven years		103	382	596	581	463	337	224	144	123	128	2,125	3,081
Subtotal, eliminate oil and natural gas preferences		4,900	6,825	6,015	5,298	4,707	4,145	3,534	3,211	3,107	3,096	27,745	44,838
Eliminate coal preferences:													
Repeal expensing of exploration and development costs		39	66	69	73	77	77	75	73	70	60	324	679

Table 12-3. RESERVE FOR LONG-RUN REVENUE-NEUTRAL BUSINESS TAX REFORM—Continued

(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
Repeal percentage depletion for hard mineral fossil fuels	167	173	182	195	203	211	218	225	234	244	920	2,052
Repeal capital gains treatment for royalties	20	43	47	49	52	55	58	61	61	62	211	508
Repeal domestic manufacturing deduction for the production of coal and other hard mineral fossil fuels	36	63	67	70	73	77	80	83	87	90	309	726
Subtotal, eliminate coal preferences	262	345	365	387	405	420	431	442	452	456	1,764	3,965
Total, eliminate fossil fuel preferences	5,162	7,170	6,380	5,685	5,112	4,565	3,965	3,653	3,559	3,552	29,509	48,803
Other revenue changes and loophole closers:													
Repeal the excise tax credit for distilled spirits with flavor and wine additives ³	85	112	112	112	112	112	112	112	112	112	533	1,093
Repeal LIFO method of accounting for inventories	4,151	7,823	8,786	8,965	8,850	8,778	8,818	8,917	8,770	8,850	38,575	82,708
Repeal lower-of-cost-or-market inventory accounting method	644	1,404	1,526	1,537	903	270	283	296	309	323	6,014	7,495
Modify depreciation rules for purchases of general aviation passenger aircraft	87	273	411	456	532	549	385	209	155	153	1,759	3,210
Repeal gain limitation for dividends received in reorganization exchanges	153	263	276	290	305	319	335	352	370	388	1,287	3,051
Expand the definition of substantial built-in loss for purposes of partnership loss transfers	5	7	7	7	7	7	8	8	10	10	33	76
Extend partnership basis limitation rules to nondeductible expenditures	63	90	97	102	105	108	110	112	114	116	457	1,017
Limit the importation of losses under related party loss limitation rules	56	81	87	92	95	97	99	100	102	104	411	913
Deny deduction for punitive damages	25	36	37	38	38	40	40	41	43	136	338
Modify like-kind exchange rules for real property	616	1,875	1,894	1,914	1,936	1,958	1,981	2,006	2,031	2,059	8,235	18,270
Conform corporate ownership standards	24	48	51	54	57	60	63	66	69	72	234	564
Prevent elimination of earnings and profits through distributions of certain stock	2	22	33	35	37	39	41	43	45	47	49	166	391
Total, other revenue changes and loophole closers	2	5,906	12,034	13,318	13,603	12,979	12,337	12,277	12,263	12,130	12,279	57,840	119,126
Total, reserve for long-run revenue-neutral business tax reform ⁴	–10,648	10,035	30,686	31,412	30,580	28,891	27,166	23,970	21,945	21,658	21,910	131,604	248,253

¹ This proposal affects both receipts and outlays. Both effects are shown here. The outlay effects included in these estimates are listed below:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
Modify and permanently extend renewable electricity production tax credit .....	.....	28	120	241	382	523	661	811	978	1,158	1,349	1,294	6,251
Expand and simplify the tax credit provided to qualified small employers for non-elective contributions to employee health insurance	11	50	47	41	23	13	10	6	5	7	5	174	207
Total, outlay effects of reserve for long-run revenue-neutral business tax reform	11	78	167	282	405	536	671	817	983	1,165	1,354	1,468	6,458

² This provision is estimated to have zero receipt effect under the Administration's current economic projections.

³ Net of income offsets.

⁴ Because the Administration believes that these proposals should be enacted in the context of comprehensive business tax reform, the amounts are not reflected in the budget estimates of receipts and are not counted toward meeting the Administration's deficit reduction goals. The Administration's proposals that are reflected in the budget estimates of receipts are presented in Table 12-4. These include an allowance, also presented below, for temporary receipts that would be generated by the transition to a reformed business tax system.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
Transition to a reformed business tax system	37,500	37,500	37,500	37,500	.....	.....	.....	.....	.....	.....	150,000	150,000

BUDGET PROPOSALS

The Administration's receipt proposals, which begin the process of reducing the deficit and reforming the Internal Revenue Code, will strengthen the economy and provide support to middle-income families. These proposals provide support for job creation and incentives for investment in infrastructure, help make work pay by expanding the EITC for workers without qualifying children, and help families save for retirement and pay for college and child care. They also reduce the deficit and make the tax system fairer by eliminating a number of tax loopholes and reducing tax benefits for higher-income taxpayers. The Administration's proposals that affect receipts are described below.

Incentives for Job Creation, Clean Energy, and Manufacturing

Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project.—ARRA provided a 30-percent credit for investment in eligible property used in a qualifying advanced energy manufacturing project. A qualifying advanced energy manufacturing project re-equips, expands, or establishes a manufacturing facility for the production of: (1) property designed to be used to produce energy from the sun, wind, geothermal deposits, or other renewable resources; (2) fuel cells, microturbines, or an energy storage system for use with electric or hybrid-electric motor vehicles; (3) electric grids to support the transmission of intermittent sources of renewable energy, including the storage of such energy; (4) property designed to capture and sequester carbon dioxide; (5) property designed to refine or blend renewable fuels (excluding fossil fuels) or to produce energy conservation technologies; (6) new qualified plug-in electric drive motor vehicles or components that are designed specifically for use with such vehicles; or (7) other advanced energy property designed to reduce greenhouse gas emissions as may be determined by the Department of the Treasury. Eligible property must be depreciable (or amortizable) property used in a qualifying advanced energy project and does not include property designed to manufacture equipment for use in the refining or blending of any transportation fuel other than renewable fuels. The credit is available only for projects certified by the Department of the Treasury (in consultation with the Department of Energy). The Administration proposes to provide an additional \$2.5 billion in credits, thereby increasing the amount of credits to \$4.8 billion. In addition, the Administration proposes to allow up to \$200 million of these credits to be allocated to the construction of infrastructure that contributes to networks of refueling stations that serve alternative fuel vehicles.

Designate Promise Zones.—The Administration proposes to designate 20 Promise Zones (14 in urban areas and six in rural areas) in 2014, five of which have already been chosen. Zone designations would become effective in 2015 and would last for 10 years. The zones would be

chosen through a competitive application process based on the strength of the applicant's "competitiveness plan," economic indicators, and other criteria. Two tax incentives would be applicable to designated promise zones after the incentives' enactment. First, an employment credit would be provided to businesses that employ zone residents that would apply to the first \$15,000 of qualifying wages annually. The credit rate would be 20 percent for zone residents who are employed within the zone and 10 percent for zone residents employed outside of the zone. Second, qualifying property placed in service within the zone would be eligible for additional first-year depreciation of 100 percent of the adjusted basis of the property. Qualifying property would generally consist of depreciable property with a recovery period of 20 years or less.

Provide new Manufacturing Communities tax credit.—The Administration proposes to provide new tax credit authority to support qualified investments in communities affected by military base closures or mass layoffs, such as those arising from plant closures. This would provide about \$2 billion in credits for qualified investments approved in each of the three years, 2015 through 2017.

Provide a tax credit for the production of advanced technology vehicles.—Current law provides a tax credit for plug-in electric drive motor vehicles. The Administration proposes to replace this credit with a credit for advanced technology vehicles. The credit would be available for a vehicle that meets the following criteria: (1) the vehicle operates primarily on an alternative to petroleum; (2) as of January 1, 2014, there are few vehicles in operation in the United States using the same technology as such vehicle; and (3) the technology used by the vehicle substantially exceeds the footprint-based target miles per gallon. In general, the credit would be scalable based on the vehicle's miles per gallon gasoline equivalent, but would be capped at \$10,000 (\$7,500 for vehicles with a manufacturer's suggested retail price above \$45,000). The credit for a battery-powered vehicle would be determined under current law rules for the credit for plug-in electric drive motor vehicles if that computation results in a greater credit. The credit would be allowed for vehicles placed in service after December 31, 2014, and before January 1, 2022. The credit would be limited to 75 percent of the otherwise allowable amount for vehicles placed in service in 2019, to 50 percent of such amount for vehicles placed in service in 2020, and to 25 percent of such amount for vehicles placed in service in 2021. The credit would be allowed to the vehicle manufacturer and would be transferable.

Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles.—Current law provides no tax incentive for alternative-fuel vehicles (other than fuel-cell vehicles) weighing more than 14,000 pounds. The Administration proposes to provide a tax credit for dedicated alternative-fuel commercial vehicles weighing more than 14,000 pounds. The credit would be \$25,000 for vehicles weighing between 14,000 and 26,000

pounds and \$40,000 for vehicles weighing more than 26,000 pounds. The credit would be allowed for vehicles placed in service after December 31, 2014, and before January 1, 2021. For vehicles placed in service in calendar year 2020, the credit would be limited to 50 percent of the otherwise allowable amount. The credit would be allowed to the manufacturer of the vehicle and would be transferable.

Modify tax-exempt bonds for Indian tribal governments (ITGs).—In general, current law limits ITGs in their use of tax-exempt bonds to the financing of certain “essential governmental function” activities that are customarily performed by State and local governments. ARRA provided a limited \$2 billion authorization of “Tribal Economic Development Bonds,” which gives ITGs more flexibility to use tax-exempt bonds under standards that are more comparable to those applied to State and local governments in their use of tax-exempt bonds (subject to certain express targeting restrictions that require financed projects to be located on Indian reservations and that prohibit the financing of certain gaming facilities). In December 2011, the Department of the Treasury submitted a required report to the Congress regarding its study of the Tribal Economic Development Bond provision and its recommendations for ITG tax-exempt bond financing. The Administration proposes to modify the standards for ITG tax-exempt bond financing to reflect the recommendations in this report. In particular, the Administration’s proposal generally would adopt the State or local government standard for tax-exempt governmental bonds without a bond volume cap on such governmental bonds for purposes of ITG eligibility to issue tax-exempt governmental bonds. The proposal would repeal the existing essential governmental function standard for ITG tax-exempt bond financing. In addition, the proposal would allow ITGs to issue tax-exempt private activity bonds for the same types of projects and activities as are allowed for State and local governments, under a modified national bond volume cap to be administered by the Department of the Treasury. Further, the proposal generally would continue an existing targeting restriction that would require projects financed with ITG bonds to be located on Indian reservations, with some additional flexibility to finance projects that have a requisite nexus to Indian reservations and that serve resident populations of Indian reservations. Finally, the proposal would continue an existing targeting restriction that prohibits financing of certain gaming projects. This proposal would be effective as of the date of enactment.

Extend the tax credit for cellulosic biofuel.—The Administration proposes to retroactively extend the tax credit for blending cellulosic fuel, which expired on December 31, 2013, at \$1.01 per gallon through December 31, 2020. The amount of the credit would then be reduced by 20.2 cents per gallon in each subsequent year, so that the credit would expire after December 31, 2024.

Modify and extend the tax credit for the construction of energy-efficient new homes.—Under the Administration’s proposal, the tax credit for energy-efficient new homes, which expired on December 31, 2013,

would be extended through December 31, 2014. The Administration proposes replacing this credit with a two-tier credit starting in 2015. The proposal would provide a \$1,000 tax credit to homebuilders for the construction of each qualified ENERGY STAR certified new home that meets guidelines for energy efficiency and construction set by the Environmental Protection Agency. The proposal would also provide a \$4,000 tax credit for the construction of each qualified Challenge Home certified to meet substantially higher standards for energy savings and construction set by the Department of Energy (DOE). To ensure that a new home meets the ENERGY STAR or DOE Challenge Home guidelines, verification by a qualified third party would be required. The new credits would apply to qualified new homes acquired from the homebuilder for use as a residence after December 31, 2014, and before January 1, 2025.

Reduce excise taxes on liquefied natural gas (LNG) to bring into parity with diesel.—The Administration proposes to reduce the excise tax on LNG from 24.3 cents to 14.1 cents per gallon after December 31, 2014.

Incentives for Investment in Infrastructure

Provide America Fast Forward Bonds and expand eligible uses.—ARRA created the Build America Bond program as an optional new lower cost borrowing incentive for State and local governments on taxable bonds issued in 2009 and 2010 to finance new investments in governmental capital projects. Under the original program applicable to Build America Bonds issued in 2009 and 2010, the Department of the Treasury makes direct subsidy payments (called “refundable tax credits”) to State and local governmental issuers in a subsidy amount equal to 35 percent of the coupon interest on the bonds. The Administration proposes to create a new permanent America Fast Forward Bond program, which would be an optional alternative to traditional tax-exempt bonds. Like Build America Bonds, America Fast Forward Bonds would be conventional taxable bonds issued by State and local governments in which the Federal government makes direct payments to State and local governmental issuers (refundable tax credits). The subsidy rate would be 28 percent, which is approximately revenue neutral in comparison to the Federal tax losses from traditional tax-exempt bonds. The Administration proposes to include as an eligible use for America Fast Forward Bonds, financing for governmental capital projects, current refundings of prior public capital project financings, short-term governmental working capital financings for governmental operating expenses subject to a 13-month maturity limitation, and financing for section 501(c)(3) nonprofit entities. The proposal, which would be effective for bonds issued beginning in 2015, recommends precluding direct payments to State and local government issuers under the American Fast Forward Bond program from being subject to sequestration.

Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories.—The Administration proposes

to include as an eligible use for America Fast Forward Bonds, financing for the types of projects and programs that can be financed with qualified private activity bonds (in addition to financing for section 501(c)(3) nonprofit entities), subject to applicable State bond volume caps for the qualified private activity bond category.

Allow current refundings of State and local governmental bonds.—Current law provides Federal tax subsidies for lower borrowing costs on debt obligations issued by State and local governments for eligible purposes under various programs. These programs include traditional tax-exempt bonds and other temporary or targeted qualified tax credit bond programs (e.g., qualified school construction bonds) and direct borrowing subsidy payment programs (e.g., Build America Bonds). State and local bond programs have varied in the extent to which they expressly allow or treat refinancings (as distinguished from original financings to fund eligible program purposes). In a “current refunding” of State and local bonds, the refunded bonds are retired promptly within 90 days after issuance of the refinancing bonds. These refundings generally reduce borrowing costs for State and local governmental issuers, and they also reduce Federal revenue losses due to the Federal borrowing subsidies for State and local bonds. A general authorization for current refundings of State and local bonds not currently covered by specific refunding authority would promote greater uniformity, tax certainty, and borrowing cost savings. The Administration proposes to allow current refundings of these State and local bonds if: (1) the principal amount of the current refunding bonds is no greater than the outstanding principal amount of the refunded bonds, and (2) the weighted average maturity of the current refunding bonds is no longer than the remaining weighted average maturity of the refunded bonds. This proposal would be effective as of the date of enactment.

Repeal the \$150 million non-hospital bond limitation on all qualified 501(c)(3) bonds.—The Tax Reform Act of 1986 established a \$150 million limit on the volume of outstanding non-hospital, tax-exempt bonds used for the benefit of a section 501(c)(3) organization. The provision was repealed in 1997 with respect to bonds issued after August 5, 1997, at least 95 percent of the net proceeds of which are used to finance capital expenditures incurred after that date. The limitation continues to apply to bonds more than five percent of the net proceeds of which finance or refinance (1) working capital expenditures or (2) capital expenditures incurred on or before August 5, 1997. The Administration proposes to repeal in its entirety the \$150 million limit on the volume of outstanding, non-hospital, tax-exempt bonds for the benefit of a section 501(c)(3) organization, effective for bonds issued after the date of enactment.

Increase national limitation amount for qualified highway or surface freight transfer facility bonds.—Tax-exempt private activity bonds may be used to finance qualified highway or surface freight transfer facilities. A qualified highway or surface freight transfer facility is any surface transportation, international bridge, or tunnel project that receives Federal assistance under title 23

of the United States Code or any facility for the transfer of freight from truck or rail to truck that receives Federal assistance under title 23 or title 49 of the United States Code. Tax-exempt bonds issued to finance qualified highway or surface freight transfer facilities are not subject to State volume cap limitations. Instead, the Secretary of Transportation is authorized to allocate a total of \$15 billion of issuance authority to qualified highway or surface freight transfer facilities in such manner as the Secretary determines appropriate. The Administration proposes to increase the \$15 billion aggregate amount permitted to be allocated by the Secretary of Transportation to \$19 billion.

Eliminate the volume cap for private activity bonds for water infrastructure.—Under current law, private activity bonds may be issued on a tax-exempt basis only if they meet the general requirements for governmental bonds and the additional requirements for qualified private activity bonds. Most qualified private activity bonds are subject to an annual unified State volume cap. The Administration proposes to provide an exception to the annual unified State volume cap on tax-exempt qualified private activity bonds for exempt water or sewage facilities. The proposal would be effective for bonds issued after the date of enactment.

Increase the 25-percent limit on land acquisition restriction on private activity bonds.—Under current law, for qualified private activity bonds, only an amount equal to less than 25 percent of the net proceeds may be used for the acquisition of land or an interest in land (other than certain exceptions such as the exception for first-time farmers). The Administration proposes to increase the 25-percent land acquisition restriction to 35 percent. The proposal would be effective for bonds issued after the date of enactment.

Allow more flexible research arrangements for purposes of private business use limits.—Under current law, the IRS provides safe harbors that allow certain research arrangements with private businesses at tax-exempt bond financed research facilities. The existing safe harbors generally impose constraints on these research arrangements. The Administration proposes to remove certain of these constraints to provide additional flexibility for these research arrangements relating to basic research entered into after the date of enactment.

Repeal the government ownership requirement for certain types of exempt facility bonds.—Current law permits tax-exempt financing with respect to certain categories of exempt facilities, including airports, docks and wharves, and mass commuting facilities. Airports, docks and wharves, and mass commuting facilities are treated as exempt facilities only if all of the property to be financed with the net proceeds of the issue is to be owned by a governmental unit. Existing rules provide a safe harbor for ownership by a governmental unit where such facilities are leased or subject to management contracts with nongovernmental units. The Administration proposes to repeal the requirement under the tax-exempt bond rules that airports, docks and wharves, and mass commuting facilities must be owned by a governmental

unit. The proposal would be effective for bonds issued after the date of enactment.

Exempt foreign pension funds from the application of the Foreign Investment in Real Property Tax Act (FIRPTA).—Under current law, gains of foreign investors from the disposition of U.S. real property interests are generally subject to U.S. tax under FIRPTA. Gains of U.S. pension funds from the disposition of U.S. real property interests are generally exempt from U.S. tax. The Administration proposes to exempt from U.S. tax under FIRPTA certain gains of foreign pension funds from the disposition of U.S. real property interests. The proposal would be effective for dispositions of U.S. real property interests occurring on or after the date of enactment.

Tax Cuts for Families and Individuals

Expand EITC for workers without qualifying children.—Low and moderate income workers may be eligible for a refundable EITC. The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, and is gradually phased out once income exceeds a specified threshold. Different credit schedules apply for taxpayers based on the number of qualifying children the taxpayer claims. Taxpayers with low wages who do not have a qualifying child and are at least 25 years old and less than 65 years old (or for whom, if filing jointly, the age of at least one spouse is within these limits) may be eligible to claim the small EITC for workers without qualifying children. The Administration proposes to increase the credit for workers without qualifying children. The phasein rate and the phaseout rate would be increased from 7.65 percent to 15.30 percent, which would double the size of the maximum credit from about \$500 to about \$1,000 in 2015. The income at which the credit would begin to phase out would be increased to \$11,500 (\$17,000 for joint filers) in 2015 and indexed thereafter. The Administration also proposes to expand eligibility to workers at least 21 years old and less than 67 years old. As under current law, taxpayers who may be claimed as a dependent or as the qualifying child of another taxpayer (e.g. taxpayers who are dependent students age 19 to age 23), may not claim the EITC for workers without children. This proposal would be effective for tax years beginning after December 31, 2014.

Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs.—The Administration proposes to encourage saving and increase participation in retirement savings arrangements by requiring employers that do not currently offer a retirement plan to their employees to provide automatic enrollment in an IRA, effective after December 31, 2015. Employers with 10 or fewer employees and employers in existence for less than two years would be exempt. An employee not providing a written participation election would be enrolled at a default rate of three percent of the employee's compensation in a Roth IRA. Employees would always have the option of opting out, opting for a lower or higher contribution within the IRA limits, or

opting for a traditional IRA. Contributions by employees to automatic payroll-deposit IRAs would qualify for the saver's credit (to the extent the contributor and the contributions otherwise qualified).

Small employers (those that have no more than 100 employees) that offer an automatic IRA arrangement (including those that are not required to do so) would be entitled to a temporary business tax credit for the employer's expenses associated with the arrangement up to \$500 for the first year and \$250 for the second year. Furthermore, these employers would be entitled to an additional credit of \$25 per participating employee up to a total of \$250 per year for six years.

Under current law, small employers (those that have no more than 100 employees) that adopt a new qualified retirement plan, Simplified Employee Plan (SEP), or Savings Incentive Match Plan for Employees (SIMPLE plan) are entitled to a temporary business tax credit equal to 50 percent of the employer's expenses of establishing or administering the plan, including expenses of retirement-related employee education with respect to the plan. The credit is limited to a maximum of \$500 per year for three years. In conjunction with the automatic IRA proposal, the Administration proposes to encourage small employers not currently sponsoring a qualified retirement plan, SEP, or SIMPLE plan to do so by doubling this tax credit to a maximum of \$1,000 per year for three years (effective for taxable years beginning after December 31, 2015) and extending it to four years (rather than three) for any small employer that adopts a new qualified retirement plan, SEP, or SIMPLE plan during the three years beginning when it first offers or first is required to offer an automatic IRA arrangement.

Expand child and dependent care tax credit.—Taxpayers with child or dependent care expenses who are working or looking for work are eligible for a nonrefundable tax credit that partially offsets these expenses. To qualify for this benefit, the child and dependent care expenses must be for either a child under age 13 when the care was provided or a disabled dependent of any age with the same place of abode as the taxpayer. Any allowable expense is reduced by the aggregate amount excluded from income under a dependent care assistance program. Eligible taxpayers may claim the credit of up to 35 percent of up to \$3,000 in eligible expenses for one child or dependent and up to \$6,000 in eligible expenses for more than one child or dependent. The percentage of expenses for which a credit may be taken decreases by one percentage point for every \$2,000 of adjusted gross income (AGI) over \$15,000 until the percentage of expenses reaches 20 percent (at incomes above \$43,000). The income phase-down and the credit are not indexed for inflation. The proposal would allow all taxpayers to claim the child and dependent care tax credit as under current law and would give taxpayers an additional credit on total expenses of up to \$4,000 per child under age 5, for up to two children. The credit rate for the additional young child credit would be 30 percent, and would phase down at a rate of 1 percentage point for every \$2,000 (or part thereof) of AGI over \$61,000 until the rate reaches zero at incomes

above \$119,000. The income phasedown and the amount of expenses eligible for the additional credit would not be indexed for inflation. Together, the current law child and dependent care tax credit and the additional credit would provide a total credit of up to 65 percent of the first \$3,000 in child care expenses for one child under age 5 and up to 65 percent of the first \$6,000 in child care expenses for two children under age 5. The additional credit would also provide a credit of up to 30 percent on the next \$1,000 in child care expenses for each child under age 5, for up to two children. The proposal would be effective for tax years beginning after December 31, 2014.

Extend exclusion from income for cancellation of certain home mortgage debt.—The Administration proposes to extend the provision that excludes from gross income amounts that are realized from discharges of qualified principal residence indebtedness, which expired on December 31, 2013. The exclusion would be extended for three years, to apply to amounts that are discharged after December 31, 2013, and before January 1, 2017, or that are discharged pursuant to an arrangement entered into before that date.

Provide exclusion from income for student loan forgiveness for students in certain income-based or income-contingent repayment programs who have completed payment obligations.—The Federal Family Education Loan and Federal Direct Loan programs provide borrowers with various options for making payments that are related to their income and student loan debt levels after college. Under these options borrowers complete their repayment obligation when they have repaid the loan in full, with interest, or have made those payments that are required under the terms of their plan. For those who reach the end of their repayment period without repaying their loan in full, any remaining loan balance is forgiven. Under current law, any debt forgiven is considered gross income to the borrower and subject to individual income tax. The potential tax consequence may be making some student loan borrowers reluctant to avail themselves of these loan repayment options. To address that problem, the Administration proposes to exclude from gross income amounts forgiven at the end of the repayment period for certain borrowers using these methods of repayment. The provision would be effective for discharges of loans after December 31, 2014.

Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the Indian Health Service (IHS) Health Professions Programs.—Under current law, debt forgiven or otherwise discharged is generally considered gross income to the borrower and subject to income tax. There are certain exceptions, including for individuals who receive payments under the National Health Service Corps Loan Repayment Program or certain similar State loan repayment programs. Furthermore, although scholarship amounts for tuition and related expenses are generally excluded from income under current law, scholarship amounts that represent payment for teaching, research, and other services are not. There are exceptions for participants in the National Health

Service Corps Scholarship Program and the Armed Forces Health Professions Scholarship and Financial Assistance Program. The IHS Health Professions Programs are very similar to those programs whose participants are permitted to exclude discharged loan amounts and certain scholarship amounts from income. The Administration proposes to extend this exception to the IHS Health Professions Loan Repayment Program and the IHS Health Professions Scholarship Program. These provisions would be effective for discharges of loans after December 31, 2014, and for qualifying scholarship amounts received after December 31, 2014.

Make Pell Grants excludable from income.—Under current law, a Federal Pell Grant is generally excluded from gross income to the extent it is used to pay for qualified tuition and related expenses. A Pell Grant that is used to pay for living expenses, such as room and board, is not excluded from income. Also under current law, a taxpayer who meets certain income and other eligibility requirements may claim an AOTC of up to \$2,500 or a Lifetime Learning Credit (LLC) of up to \$2,000 for qualified tuition and related expenses. For purposes of claiming either credit, qualified tuition and related expenses are reduced by any amount that has been excluded from gross income. The Administration proposes to allow Pell Grants to be excludable from income without regard to which expenses they are applied so long as the proceeds are spent in accordance with the Pell Grant program. For the purposes of the AOTC and LLC, taxpayers would be able to treat the entire amount of the Pell Grant as used to pay expenses other than qualified tuition and related expenses. The proposal would be effective for tax years beginning after December 31, 2014.

Upper-Income Tax Provisions

Reduce the value of certain tax expenditures.—The Administration proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent. This limitation would reduce the value of the specified exclusions and deductions that would otherwise reduce taxable income in the top three individual income tax rate brackets of 33, 35, and 39.6 percent to 28 percent. The limit would apply to all itemized deductions, interest on tax-exempt bonds, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions. If a deduction or exclusion for contributions to retirement plans or individual retirement arrangements is limited by this proposal, the taxpayer's basis would be adjusted to reflect the additional tax paid. The limit would be effective for taxable years beginning after December 31, 2014.

Implement the Buffett Rule by imposing a new "Fair Share Tax".—The Administration proposes a new minimum tax, called the Fair Share Tax (FST), for high-income taxpayers. The tentative FST equals 30 percent of AGI less a charitable credit. The charitable credit equals 28 percent of itemized charitable contributions al-

lowed after the overall limitation on itemized deductions (Pease). The final FST is the excess, if any, of the tentative FST over the sum of the taxpayer's: (1) regular income tax (after certain credits) including the 3.8 percent net investment income tax, (2) the AMT, and (3) the employee portion of payroll taxes. The set of certain credits subtracted from regular income tax excludes the foreign tax credit, the credit for tax withheld on wages, and the credit for certain uses of gasoline and special fuels. The tax is phased in linearly starting at \$1 million of AGI (\$500,000 in the case of a married individual filing a separate return). The tax is fully phased in at \$2 million of AGI (\$1 million in the case of a married individual filing a separate return). The threshold is indexed for inflation beginning after 2015. The proposal would be effective for taxable years beginning after December 31, 2014.

Modify Estate and Gift Tax Provisions

Restore the estate, gift, and generation-skipping transfer (GST) tax parameters in effect in 2009.

Under current law, estates, gifts, and GSTs are taxed at a maximum tax rate of 40 percent with a lifetime exclusion of \$5 million, indexed for inflation after 2011. The Administration proposes to restore and permanently extend estate, gift, and GST tax parameters as they applied for calendar year 2009. Under those parameters, estates and GSTs would be taxed at a maximum tax rate of 45 percent with a life-time exclusion of \$3.5 million. Gifts would be taxed at a maximum tax rate of 45 percent with a lifetime exclusion of \$1 million. These parameters would be effective for the estates of decedents dying and transfers made after December 31, 2017, and would not be indexed for inflation.

Require consistency in value for transfer and income tax purposes.—Current law provides generally that the basis of property inherited from a decedent is the property's fair market value at the decedent's death, and of property received by gift is the donor's adjusted basis in the property, increased by the gift tax paid on the transfer. A special limitation based on fair market value at the time of the gift applies if the property subsequently is sold by the donee at a loss. Although generally the same standards apply to determine the value subject to estate or gift tax, there is no explicit consistency rule that would require the recipient of the property to use for income tax purposes the value used for estate or gift tax purposes as the recipient's basis in that property when the basis is determined by reference to the fair market value on the date of death or gift. The Administration proposes to require that, for decedents dying and gifts made after enactment, the recipient's basis generally must equal (but in no event may exceed) the value of the property as determined for estate or gift tax purposes, and a reporting requirement would be imposed on the decedent's executor or the donor to provide the necessary information to both the recipient and the IRS. The proposal also would grant regulatory authority for the development of rules to govern situations in which this general rule would not be appropri-

ate. The proposal would be effective for transfers after the year of enactment.

Require a minimum term for grantor retained annuity trusts (GRATs).—Current law provides that the value of the remainder interest in a GRAT for gift tax purposes is determined by deducting the present value of the annuity to be paid during the GRAT term from the fair market value of the property contributed to the GRAT. If the grantor of the GRAT dies during that term, the portion of the trust assets needed to produce the annuity is included in the grantor's gross estate for estate tax purposes. In practice, grantors commonly use brief GRAT terms (often of less than two years) and significant annuities to minimize both the risk of estate tax inclusion and the value of the remainder for gift tax purposes. The Administration proposes to require that the GRAT must have a minimum term of 10 years and a maximum term of 10 years more than the annuitant's life expectancy, the value of the remainder at the creation of the trust must be greater than zero, and the annuity must not decrease during the GRAT term. The proposal would apply to trusts created after the date of enactment.

Limit duration of GST tax exemption.—Current law provides that each person has a lifetime GST tax exemption (\$5,340,000 in 2014) that may be allocated to the person's transfers to or for the benefit of transferees who are two or more generations younger than the transferor ("skip persons"). The allocation of a person's GST exemption to such a transfer made in trust exempts from the GST tax not only the amount of the transfer (up to the amount of exemption allocated), but also all future appreciation and income from that amount during the existence of the trust. At the time of the enactment of the GST tax provisions, the law of almost all States included a Rule Against Perpetuities (RAP) that required the termination of every trust after a certain period of time. Because many States now either have repealed or limited the application of their RAP laws, trusts subject to the laws of those States may continue in perpetuity. As a result of this change in State laws, the transfer tax shield provided by the GST exemption effectively has been expanded from trusts funded with \$1 million and a maximum duration limited by the RAP, to trusts funded with \$5,340,000 and continuing (and growing) in perpetuity. The Administration proposes to limit the duration of the benefit of the GST tax exemption by imposing a bright-line test, more clearly administrable than the common law RAP, which, in effect, would terminate the GST tax exclusion on the 90th anniversary of the creation of the trust. An exception would be made for trusts that are distributed to another trust for the sole benefit of one individual if the distributee trust will be includable in the individual's gross estate for Federal estate tax purposes to the extent it is not distributed to that individual during his or her life. The proposal would apply to trusts created after enactment, and to the portion of a pre-existing trust attributable to additions to such a trust made after that date.

Coordinate certain income and transfer tax rules applicable to grantor trusts.—A grantor trust is ig-

nored for income tax purposes, even though the trust may be irrevocable and the deemed owner may have no beneficial interest in the trust or its assets. The lack of coordination between the income tax and transfer tax rules applicable to a grantor trust creates opportunities to structure transactions between the trust and its deemed owner that are ignored for income tax purposes and can result in the transfer of significant wealth by the deemed owner without transfer tax consequences. The Administration proposes to change certain transfer tax rules regarding grantor trusts. If a person who is a deemed owner of all or a portion of a trust engages in a transaction with that trust that constitutes a sale, exchange, or comparable transaction that is disregarded for income tax purposes by reason of the person's treatment as a deemed owner of the trust under the grantor trust rules, then the portion of the trust attributable to the property received by the trust in that transaction, net of the consideration received by the person in the transaction, will be (1) subject to estate tax as part of the deemed owner's gross estate, (2) subject to gift tax at any time during the deemed owner's life when his or her treatment as a deemed owner of the trust is terminated, and (3) treated as a gift by the deemed owner to the extent any distribution is made to another (except in discharge of the deemed owner's obligation to the distributee) during the deemed owner's life. The transfer taxes would be payable from the trust. The proposal would be effective with regard to trusts that engage in a described transaction on or after the date of enactment.

Extend the lien on estate tax deferrals where estate consists largely of interest in closely held business.—There is a lien on nearly all estate assets for the ten-year period immediately following a decedent's death to secure the full payment of the Federal estate tax. However, the estate tax payments on interests in certain closely held businesses are deferred for 14 years. Thus, this lien expires approximately five years before the due date of the final payment of the deferred tax. Existing methods of protecting the Federal government's interest in collecting the amounts due are expensive and may be harmful to businesses. The Administration proposes to extend the existing estate tax lien throughout the deferral period to eliminate the need for any additional security in most cases in a manner that is economical and efficient for both taxpayers and the Federal government. The proposal would be effective for the estates of all decedents dying on or after the date of enactment, as well as for all estates of decedents dying before the date of enactment as to which the section 6324(a)(1) lien has not then expired.

Modify GST tax treatment of Health and Education Exclusion Trusts (HEETs).—Payments made by a donor directly to the provider of medical care for another or directly to a school for another's tuition are exempt from gift tax. These direct transfers also are exempt from the GST tax. However, payments made to a trust, to be expended by the trust for the same purposes, are not exempt from the gift tax. Some contributors to HEETs interpret the GST tax exclusion to apply also to distributions made from the HEET in payment of medical expenses or tuition, and claim that those distributions are

exempt from the GST tax. The Administration proposes to provide that the GST tax exclusion for transfers exempt from the gift tax is limited to outright transfers by the donor to the provider of the medical care or education and does not apply to distributions for those same purposes from a trust. The proposal would apply to trusts created after the introduction of the bill enacting this change and to transfers after that date made to pre-existing trusts.

Simplify gift tax exclusion for annual gifts.—The annual per-donee gift tax exclusion (currently \$14,000) is available only for gifts of "present interests," but generally a transfer can be converted into a present interest by granting the donee an immediate right to withdraw the property ("Crummey power"). In an effort to simplify tax compliance and administration, and to prevent the possible abuse of such withdrawal powers, the Administration proposes to eliminate the present interest requirement, define a new category of transfers that will not be affected by withdrawal or put rights, and impose an annual per-donor cap of \$50,000 on the total amount of gifts in that new category that can be exempted from gift tax by the annual per-donee exclusion. The new category would include transfers in trust (other than to a trust described in section 2642(c)(2) of the Internal Revenue Code), transfers of interests in pass-through entities, transfers of interests subject to a prohibition on sale, and other transfers of property that, without regard to withdrawal, put, or other such rights in the donee, cannot be immediately liquidated by the donee. The proposal would be effective for gifts made after the year of enactment.

Expand applicability of definition of executor.—Under current law, the statutory definition of executor applies only for purposes of the estate tax; therefore, an executor of an estate does not have the authority to extend a statute of limitation, claim a refund, agree to a compromise or assessment, or pursue judicial relief for a tax liability that arose prior to the decedent's death. To empower an authorized party to act on behalf of the decedent in such matters, the Administration proposes to make the statutory definition of executor applicable for all tax purposes, and to authorize such executor to do anything on behalf of the decedent in connection with the decedent's pre-death tax liabilities or obligations that the decedent could have done if still living. In addition, because this definition frequently results in multiple parties being an executor, the proposal would grant regulatory authority to adopt rules to resolve conflicts among multiple executors authorized by that definition. The proposal would be effective upon enactment, regardless of the decedent's date of death.

Reform Treatment of Financial Industry Institutions and Products

Impose a financial crisis responsibility fee.—The Administration proposes to impose a fee on U.S.-based bank holding companies, thrift holding companies, and certain broker-dealers, as well as companies that control insured depositories and certain broker-dealers, with assets in excess of \$50 billion. U.S. subsidiaries of interna-

tional firms that fall into these categories with assets in excess of \$50 billion would also be covered. The fee would be based on covered liabilities of the firm and would raise approximately \$56 billion over ten years and would be effective on January 1, 2016.

Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt.—Just as original issue discount (OID) is part of the yield of a debt instrument purchased at original issuance, market discount generally enhances the yield to a purchaser of debt in the secondary market. Unlike OID, however, market discount is deferred until a debt instrument matures or is otherwise sold or transferred. The Administration's proposal would require taxpayers to accrue market discount into income currently, in the same manner as original issue discount. To prevent over-accrual of market discount on distressed debt, the accrual would be limited to the greater of (1) an amount equal to the bond's yield to maturity at issuance plus five percentage points, or (2) an amount equal to the Applicable Federal Rate plus 10 percentage points. The proposal would apply to debt securities acquired after December 31, 2014.

Require that the cost basis of stock that is a covered security must be determined using an average cost basis method.—Current regulations permit taxpayers to use "specific identification" when they sell or otherwise dispose of stock. Specific identification allows taxpayers who hold identical shares of stock that have different tax basis to select the amount of gain or loss to recognize on the disposition. The Administration's proposal would require the use of average cost basis for all identical shares of portfolio stock held by a taxpayer that have a long-term holding period. The proposal would apply to covered securities acquired after December 31, 2014.

Loophole Closers

Tax carried (profits) interests as ordinary income.—A partnership does not pay Federal income tax; instead, an item of income or loss of the partnership and associated character flows through to the partners who must include such items on their income tax returns. Certain partners receive partnership interests, typically interests in future profits, in exchange for services (commonly referred to as "profits interests" or "carried interests"). Because the partners, including partners who provide services, reflect their share of partnership items on their tax return in accordance with the character of the income at the partnership level, long-term capital gains and qualifying dividends attributable to carried interests may be taxed at a maximum 20-percent rate (the maximum tax rate on capital gains) rather than at ordinary income tax rates. The Administration proposes to designate a carried interest in an investment partnership as an "investment services partnership interest" (ISPI) and to tax a partner's share of income from an ISPI that is not attributable to invested capital as ordinary income, regardless of the character of the income at the partnership level. In addition, the partner would be required to

pay self-employment taxes on such income, and the gain recognized on the sale of an ISPI that is not attributable to invested capital would generally be taxed as ordinary income, not as capital gain. However, any allocation of income or gain attributable to invested capital on the part of the partner would be taxed as ordinary income or capital gain based on its character to the partnership and any gain realized on a sale of the interest attributable to such partner's invested capital would be treated as capital gain or ordinary income as provided under current law. The proposal would be effective for tax years ending after December 31, 2014.

Require non-spouse beneficiaries of deceased IRA owners and retirement plan participants to take inherited distributions over no more than five years.—Under current law, owners of IRAs and employees with tax-favored retirement plans generally must take distributions from those retirement accounts beginning at age 70 1/2. The minimum amount required to be distributed is based on the joint life expectancy of the owner or plan participant and the designated beneficiary, calculated at the end of each year. Minimum distribution rules also apply to balances remaining after a participant or IRA owner has died. Heirs who are designated as beneficiaries under IRAs and qualified retirement plans may receive distributions over their lifetimes, no matter what the age difference between the deceased IRA owner or plan participant and the beneficiary. The Administration proposes to require non-spouse beneficiaries of IRA owners and retirement plan participants to take inherited distributions over no more than five years. Exceptions would be provided for disabled beneficiaries and beneficiaries within 10 years of age of the deceased IRA owner or plan participant. Minor children would be allowed to receive payments up to five years after they attain the age of majority. This proposal would be effective for distributions with respect to participants or IRA owners who die after December 31, 2014.

Limit the total accrual of tax-favored retirement benefits.—The Administration proposes to limit the deduction or exclusion for contributions to defined contribution plans, defined benefit plans, or IRAs for an individual who has total balances or accrued benefits under those plans that are sufficient to provide an annuity equal to the maximum allowable defined benefit plan benefit. This maximum, currently an annual benefit of \$210,000 payable in the form of a joint and survivor benefit commencing at age 62, is indexed for inflation. The proposal would be effective for taxable years beginning after December 31, 2014.

Conform Self-Employment Contributions Act (SECA) taxes for professional service businesses.—The self-employment tax system treats business owners differently according to the legal form of their ownership, rather than their operational roles in the business. In some cases the rules are outdated and do not reflect significant changes to State law business forms. As a result, many owners of pass-through entities avoid payroll tax on income that looks like self-employment earnings and that would be taxed as self-employment earnings (subject

to employment taxes) if the business had a different legal structure. The Administration proposes to tax owners of pass-through businesses providing professional services consistently, regardless of the legal form of the organization. Owners who provide services and materially participate in a business that provides professional services would be subject to self-employment tax on their distributive shares of income, as currently applied to general partners and sole proprietors. Owners who do not materially participate would be subject to self-employment tax only on an amount equal to reasonable compensation for services provided. The proposal would be effective for taxable years beginning after December 31, 2014.

Other Revenue Raisers

Increase Oil Spill Liability Trust Fund financing rate by one cent and update the law to include other sources of crudes.—An excise tax is imposed on: (1) crude oil received at a U.S. refinery; (2) imported petroleum products entered into the United States for consumption, use, or warehousing; and (3) any domestically produced crude oil that is used in (other than on the premises where produced for extracting oil or natural gas) or exported from the United States if, before such use or exportation, no taxes were imposed on the crude oil. Under current law, the tax does not apply to crudes such as those produced from bituminous deposits as well as kerogen-rich rock. The tax is deposited in the Oil Spill Liability Trust Fund. Amounts in the trust fund are used for several purposes, including the payment of costs associated with responding to and removing oil spills. The tax imposed on crude oil and imported petroleum products is eight cents per barrel, effective for periods after December 31, 2008, and before January 1, 2017, and nine cents per barrel, effective for periods after December 31, 2016. The Administration proposes to increase these taxes by one cent per barrel, to nine cents per barrel for periods after December 31, 2014, and to 10 cents per barrel for periods after December 31, 2016. In addition, the Administration proposes to update the law to include other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock. The tax would cover, at the applicable rate, other sources of crudes received at a U.S. refinery, entered into the United State, or used or exported as described above after December 31, 2014.

Reinstate Superfund taxes.—The Administration proposes to reinstate the taxes that were deposited in the Hazardous Substance Superfund prior to their expiration on December 31, 1995. These taxes, which contributed to financing the cleanup of the nation's highest risk hazardous waste sites, are proposed to be reinstated for periods (excise taxes) or tax years (income tax) beginning after 2014, with expiration for periods and tax years after 2024. The proposed taxes include the following: (1) an excise tax of 9.7 cents per barrel on crude oil and imported petroleum products; (2) an excise tax on specified hazardous chemicals at rates that vary from 22 cents to \$4.87 per ton; (3) an excise tax on imported substances that use the specified hazardous chemicals as a feedstock (in an amount

equivalent to the tax that would have been imposed on domestic production of the chemicals); and (4) a corporate environmental income tax imposed at a rate of 0.12 percent on the amount by which the modified AMT income of a corporation exceeds \$2 million. Consistent with the Administration's proposal regarding taxes deposited in the Oil Spill Liability Trust Fund, the Superfund excise tax on crude oil and petroleum products would cover other sources of crudes such as those produced from bituminous deposits as well as kerogen-rich rock.

Increase tobacco taxes and index for inflation.—Under current law, cigarettes are taxed at a rate of \$50.33 per 1,000 cigarettes. This is equivalent to just under \$1.01 per pack, or approximately \$22.88 per pound of tobacco. Taxes on other tobacco products range from \$0.5033 per pound for chewing tobacco to \$24.78 per pound of roll-your-own tobacco. The Administration proposes to increase the tax on cigarettes to \$97.65 per 1,000 cigarettes, or about \$1.95 per pack, increase all other tobacco taxes by about the same proportion, and index the taxes for inflation after 2015. The Administration also proposes to clarify that roll-your-own tobacco includes any processed tobacco that is removed for delivery to anyone other than a manufacturer of tobacco products or exporter. The rate increases would be effective for articles held for sale or removed after December 31, 2014.

Make unemployment insurance (UI) surtax permanent.—The net Federal UI tax on employers dropped from 0.8 percent to 0.6 percent with respect to wages paid after June 30, 2011. The Administration proposes to permanently reinstate the 0.8 percent rate, effective with respect to wages paid on or after January 1, 2015.

Provide short-term tax relief to employers and expand Federal Unemployment Tax Act (FUTA) base.—The lingering effects of the economic downturn continue to severely test the adequacy of States' UI systems, forcing many States to borrow from the Federal Unemployment Account within the Unemployment Insurance Trust Fund to continue paying benefits. These debts are now being repaid through additional taxes on employers, which undermine much-needed job creation. To provide short-term relief to employers in these States, the Administration proposes a suspension of interest on State UI borrowing in 2014 and 2015 along with a suspension of the FUTA credit reduction, which is an automatic debt repayment mechanism. The Administration also proposes to increase the FUTA taxable wage base to \$15,000 starting in 2017, to index it to inflation, and to reduce the FUTA tax rate. States with lower wage bases will need to adjust their UI tax structures to conform to the new FUTA taxable wage base. This will put State UI systems on a firmer financial footing for the future.

Enhance and modify the conservation easement deduction.—A deduction is generally available for charitable contributions of cash and property. In general, no charitable deduction is allowed for a contribution of a partial interest in property. An exception to this rule allows a donor to deduct the value of a conservation easement (a partial interest) that is donated to a qualified charitable organization exclusively for conservation purposes,

including the preservation of recreational outdoor spaces and certain certified historical structures. The value of the deduction for any contribution that produces a return benefit to the donor must be reduced by the value of the benefit received. Special rules for the deductibility of qualified conservation contributions were temporarily enacted, applicable for qualified conservation contributions made in taxable years beginning after December 31, 2005, and before January 1, 2014. The Administration proposes the following enhancements and modifications to the conservation easement deduction.

Enhance and make permanent incentives for the donation of conservation easements.—The Pension Protection Act of 2006 temporarily raised the percentage-of-income limitations for gifts of conservation easements made after December 31, 2005, allowing individuals to deduct up to 50 percent of their contribution base (generally, AGI) and allowing individuals who are qualified farmers and ranchers to deduct up to 100 percent of their contribution base. Certain corporate farmers and ranchers could deduct the value of contributions of property used in agriculture or livestock production (and restricted so as to remain available for such production) up to 100 percent of taxable income. Additionally, all of these donors could deduct any remaining value of the donated easement over the succeeding 15 years. The Administration proposes to make permanent the temporary enhanced incentives for conservation easement contributions that expired on December 31, 2013. This proposal would be effective for contributions made on or after January 1, 2014.

Eliminate the deduction for contributions of conservation easements on golf courses.—Contributions of easements on golf courses have raised concerns that the deduction amounts claimed for such easements are excessive, and also that the conservation easement deduction is not narrowly tailored to promote only bona fide conservation activities, as opposed to the private interests of donors. The Administration proposes to amend the charitable contribution deduction provision to prohibit a deduction for any contribution of a partial interest in property that is, or is intended to be, used as a golf course. This proposal would be effective for contributions made after the date of enactment.

Restrict deductions and harmonize the rules for contributions of conservation easements for historic preservation.—Concerns have been raised that the deduction amounts claimed for contributions of conservation easements for historic preservation are excessive and may not appropriately take into account existing limitations on the property. The Administration proposes to disallow a deduction for any value associated with forgone upward development above an historic building.

A 2006 amendment to the Internal Revenue Code added several special rules, including additional substantiation rules, for contributions of easements protecting the exterior of buildings located in registered

historic districts. These rules do not currently apply to buildings listed in the National Register of Historic Places. The Administration proposes to extend these special rules to contributions of conservation easements on buildings listed in the National Register of Historic Places. This proposal would be effective for contributions made after the date of enactment.

Eliminate deduction for dividends on stock of publicly-traded corporations held in employee stock ownership plans (ESOPs).—Generally, corporations do not receive a corporate income tax deduction for dividends paid to their shareholders. However, a deduction for dividends paid on employer securities is allowed under a special rule for ESOPs, including, for example, dividends paid on employer stock held in an “ESOP account” that is one of the investment options available to employees under a typical 401(k) plan. This special rule has been justified as encouraging employee ownership, which has been viewed as having a productivity incentive effect. However, ownership of stock of a publicly-traded corporation generally does not result in employees owning a significant percentage of the corporation and can result in an excessive concentration of assets intended for retirement security in a single investment. The Administration’s proposal would repeal the deduction for dividends paid with respect to employer stock held by an ESOP that is sponsored by a publicly-traded corporation. This proposal would be effective with respect to dividends paid after the date of enactment.

Levy a fee on the production of hardrock minerals to restore abandoned mines.—Until 1977, there were no Federal requirements to restore land after mining for coal, leaving nearly \$4 billion worth of abandoned coal mine hazards remaining today. The Department of the Interior collects a fee on every ton of coal produced in the United States to finance the reclamation of these abandoned coal mines. Historic mining of hardrock minerals, such as gold and copper, also left numerous abandoned mine lands (AML); however, there is no similar source of Federal funding to reclaim these sites. Just as the coal industry is held responsible for past mining practices, the Administration proposes to hold the hardrock mining industry responsible for abandoned hardrock mines. The proposed fee on the production of hardrock minerals would be charged per volume of material displaced after December 31, 2015, and the receipts would be distributed through a set allocation between Federal and non-Federal lands. Funds would be used to restore the most hazardous hardrock AML sites, on both public and private lands. The receipts allocated to restoration of non-Federal lands would be distributed to States and Tribes based on need, with each State and Tribe selecting its own priority projects within certain national criteria.

Return fees on the production of coal to pre-2006 levels to restore abandoned mines.—Since October 1, 1977, the Department of the Interior has collected fees on every ton of coal produced in the United States to finance the reclamation of abandoned coal mines. The fees levied on mine operators were originally \$0.35 per ton for surfaced mined coal and \$0.15 per ton for under-

ground mined coal. The 2006 amendments to the Surface Mining Control and Reclamation Act instituted a phased reduction in these fees beginning in 2006. However, nearly \$4 billion worth of abandoned coal mine hazards remain today. The Administration proposes to restore the fees to their original level, effective for coal mined after September 30, 2014, to provide additional resources to continue addressing the legacy of abandoned coal mines.

Reduce the Tax Gap and Make Reforms

Expand Information Reporting

Require information reporting for private separate accounts of life insurance companies.—Earnings from direct investments in assets generally result in taxable income to the holder, whereas investment in comparable assets through a separate account of a life insurance company generally gives rise to tax-free or tax-deferred income. This favorable tax treatment is unavailable if the policyholder has so much control over the investments in the account that the policyholder, rather than the company, should be treated as the owner of those investments. The proposal would require information reporting with regard to each life insurance or annuity contract whose investment in a separate account represents at least 10 percent of the value of the account. The proposal would be effective for taxable years beginning after December 31, 2014.

Require a certified Taxpayer Identification Number (TIN) from contractors and allow certain withholding.—Currently, withholding is not required or permitted for payments to contractors. Since contractors are not subject to withholding, they may be required to make quarterly payments of estimated income taxes and SECA taxes. An optional withholding method for contractors would reduce the burdens of having to make quarterly payments, would help contractors automatically set aside funds for tax payments, and would help increase compliance. Under the Administration's proposal, a contractor receiving payments of \$600 or more in a calendar year from a particular business would be required to furnish to the business the contractor's certified TIN. A business would be required to verify the contractor's TIN with the IRS, which would be authorized to disclose, solely for this purpose, whether the certified TIN-name combination matches IRS records. Contractors receiving payments of \$600 or more in a calendar year from a particular business could require the business to withhold a flat rate percentage of their gross payments. This proposal would be effective for payments made to contractors after December 31, 2014.

Modify reporting of tuition expenses and scholarships on Form 1098-T.—Under current law, institutions of higher education file Form 1098-T to report tuition expenses to students and to the IRS. The educational institution has the choice of filling out Box 1 (payments received for qualified tuition and related expenses) or Box 2 (amounts billed for qualified tuition and related ex-

penses). Box 2 reporting makes Form 1098-T less useful for the student and for the IRS in determining what expenses the student has already paid, and thus the amount of education tax credit that may be claimed for the current tax year. Institutions of higher education are also required to report scholarships and grants (Box 5) that they administer and process (for instance, Pell grants). Only expenses paid net of scholarships qualify for education tax benefits. In addition, scholarships that are not used to pay for eligible education expenses are taxable. Entities other than institutions of higher learning that provide scholarships and grants are not required to file Form 1098-T to report these amounts to students or to the IRS. The Administration proposes to improve Form 1098-T reporting to make the information more useful to students and to the IRS. The proposal would require institutions of higher learning to report amounts paid and not amounts billed on Form 1098-T. It would also require any entity issuing a scholarship or grant in excess of \$500 that is not processed or administered by an institution of higher learning to report the scholarship or grant on Form 1098-T. The threshold amount is indexed for inflation after 2015. The proposal would be effective for tax years beginning after December 31, 2014.

Provide for reciprocal reporting of information in connection with the implementation of Foreign Account Tax Compliance Act (FATCA).—In many cases, foreign law would prevent foreign financial institutions from complying with the FATCA provisions of the Hiring Incentives to Restore Employment Act of 2010 by reporting to the IRS information about U.S. accounts. Such legal impediments can be addressed through intergovernmental agreements under which the foreign government agrees to provide the information required by FATCA to the IRS. Requiring U.S. financial institutions to report similar information to the IRS with respect to non-resident accounts would facilitate such intergovernmental cooperation by enabling the IRS to reciprocate in appropriate circumstances by exchanging similar information with cooperative foreign governments to support their efforts to address tax evasion by their residents. The proposal would require certain financial institutions to report the account balance for U.S. financial accounts held by foreign persons, expand the current reporting required with respect to U.S. source income paid to accounts held by foreign persons to include similar non-U.S. source payments, and provide the Secretary of the Treasury with authority to prescribe regulations that would require reporting of such other information that is necessary to enable the IRS to facilitate FATCA implementation by exchanging similar information with cooperative foreign governments in appropriate circumstances. The proposal would be effective for returns required to be filed after December 31, 2015.

Provide authority to readily share beneficial ownership information of U.S. companies with law enforcement.—Beneficial ownership of a company generally means the individual or individuals who have a level of control over, or entitlement to, the funds or assets of the company that, as a practical matter, enables

the individual(s), directly or indirectly, to control, manage, or direct the company and the disposition of its funds and assets. Knowledge of beneficial owners can help law enforcement officials identify and investigate criminals who form and misuse U.S. companies to commit financial crimes, including laundering criminal proceeds and financing terrorism through the international banking system. However, such information is not readily available to law enforcement officials because: (1) States do not collect all the relevant information at the time a company is formed, and (2) while the IRS collects such information for many companies (those with an employer identification number or EIN), that information cannot be shared with law enforcement officials without a court order. The proposal would allow the Secretary of the Treasury or his delegate to share beneficial ownership information with law enforcement without a court order to combat money laundering, terrorist financing, and other financial crimes. Such sharing would advance criminal investigations and successful prosecution, and assist in identifying criminal proceeds and assets. In addition, the proposal would require all companies formed in the United States to obtain an EIN, which would provide a universal identifier for these companies. Further, the proposal would provide the Secretary of the Treasury with the authority to impose anti-money laundering/countering the financing of terrorism obligations on persons in the business of forming companies. Finally, the proposal would establish standards for States to improve their regulation and oversight of the incorporation process.

Improve Compliance by Businesses

Require greater electronic filing of returns.—Generally, compliance increases when taxpayers are required to provide better information to the IRS in usable form. The Administration proposes that regulatory authority be granted to the Department of the Treasury to require that information returns be filed electronically, regardless of how many information returns are filed (under current law, regulations may require electronic filing only when 250 or more information returns are filed). Also, corporations and partnerships with assets of \$10 million or more would be required to file their tax returns electronically. In addition, regardless of asset size, corporations with more than 10 shareholders and partnerships with more than 10 partners would be required to file their tax returns electronically. The proposal would be effective for taxable years ending after December 31, 2014.

Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes.—Under current law, there is often uncertainty whether an employee leasing company or its client is liable for unpaid Federal employment taxes arising with respect to wages paid to the client's workers. Providing standards for when an employee leasing company and its clients will be held liable for Federal employment taxes will facilitate the assessment, payment, and collection of those taxes and will preclude taxpayers who have control over withholding and

payment of those taxes from denying liability when the taxes are not paid. The Administration proposes to set forth standards for holding employee leasing companies jointly and severally liable with their clients for Federal employment taxes. The proposal would also provide standards under which leasing companies would be solely liable for such taxes if they meet specified requirements. The proposal would be effective for employment tax returns required to be filed with respect to wages paid after December 31, 2014.

Increase certainty with respect to worker classification.—Under current law, worker classification as an employee or as a self-employed person (independent contractor) is generally based on a common-law test for determining whether an employment relationship exists. Under a special provision (section 530 of the Revenue Act of 1978), a service recipient may treat a worker who may actually be an employee as an independent contractor for Federal employment tax purposes if, among other things, the service recipient has a reasonable basis for treating the worker as an independent contractor. If a service recipient meets the requirements of this special provision with respect to a class of workers, the IRS is prohibited from reclassifying the workers as employees, even prospectively. The special provision also prohibits the IRS from issuing generally applicable guidance about the proper classification of workers. The Administration proposes to permit the IRS to issue generally applicable guidance about the proper classification of workers and to permit the IRS to require prospective reclassification of workers who are currently misclassified and whose reclassification is prohibited under the special provision. Penalties would be waived for service recipients with only a small number of employees and a small number of misclassified workers, if the service recipient had consistently filed all required information returns reporting all payments to all misclassified workers and the service recipient agreed to prospective reclassification of misclassified workers. It is anticipated that after enactment, new enforcement activity would focus mainly on obtaining the proper worker classification prospectively, since in many cases the proper classification of workers may not be clear.

Increase information sharing to administer excise taxes.—Current law allows the IRS and the Alcohol and Tobacco Tax and Trade Bureau to disclose specific items of tax return information to permit the effective administration of excise taxes. This disclosure provision is too narrow and prevents effective administration and enforcement of the excise tax rules. The Administration proposes to facilitate excise tax administration and increase collections by amending current law to permit disclosure of tax return information to Department of Homeland Security employees whose job responsibilities include tax administration. The proposal would be effective upon enactment.

Strengthen Tax Administration

Impose liability on shareholders to collect unpaid income taxes of applicable corporations.—Certain

shareholders, corporate officers and directors, and their advisors have engaged in “Intermediary Transaction Tax Shelters.” In a typical case, an intermediary entity purportedly purchases the shareholders’ stock, either after or shortly before the corporation sells its assets. The cash from the asset sale effectively finances the purchase of the shareholders’ stock and no assets are left to pay the corporate tax liability. Existing law does not adequately protect the Federal government’s interest in collecting the amounts due from selling shareholders as a result of these transactions. The Administration therefore proposes to add a new section to the Internal Revenue Code that would impose on the shareholders who sell stock of an “applicable C corporation” secondary liability (without resort to any State law) for payment of such corporation’s unpaid corporate taxes. Shareholders would be liable to the extent they received proceeds, directly or indirectly, for their shares in an applicable C corporation. This proposal would be effective for sales of stock of applicable C corporations occurring on or after April 10, 2013.

Increase levy authority for payments to Medicare providers with delinquent tax debt.—The Administration proposes a change to the Department of the Treasury’s debt collection procedures that will increase the amount of delinquent taxes collected from Medicare providers. Through the Federal Payment Levy Program (FPLP), Treasury deducts (levies) a portion of a Government payment to an individual or business to collect unpaid taxes. Pursuant to the Medicare Improvements for Patients and Providers Act of 2008, Medicare provider and supplier payments are included in the FPLP, whereby Treasury is authorized to continuously levy up to 15 percent of a payment to a Medicare provider to collect delinquent tax debt. The proposal would allow Treasury to levy up to 100 percent of a payment to a Medicare provider to collect unpaid taxes, effective for payments made after the date of enactment.

Implement a program integrity statutory cap adjustment for tax administration.—The Administration proposes an adjustment to the discretionary spending limits, as established in the BBEDCA, as amended, for IRS tax enforcement, compliance, and related activities, including tax administration activities at the Alcohol and Tobacco Tax and Trade Bureau (TTB). In general, such cap adjustments help protect increases above a base level for activities that generate benefits that exceed programmatic costs. The proposed 2015 cap adjustment for the IRS and TTB will fund about \$480 million in enforcement and compliance initiatives and investments above current levels of enforcement and compliance activity. Beyond 2015, the Administration proposes further increases in additional new tax enforcement initiatives each year from 2016 through 2019 and to sustain all of the new initiatives plus inflationary costs via adjustments through 2024. The total cost of starting and sustaining the new initiatives above current levels of enforcement and compliance activity would be roughly \$17 billion over the budget window, and is estimated to generate an additional \$52 billion in revenue over that same period for a net savings of \$35 billion. These resources will help the IRS and TTB continue to work on closing the tax gap, defined as

the difference between taxes owed and those paid on time and estimated at \$450 billion in 2006. Enforcement funds provided through the 2015 cap adjustment will continue to target international tax compliance and restore previously reduced enforcement levels.

Streamline audit and adjustment procedures for large partnerships.—Under current law, large partnerships, other than electing large partnerships (ELPs), are subject to the unified audit rules established under the Tax Equity and Fiscal Responsibility Act of 1982. ELPs are subject to streamlined audit and adjustment procedures. ELPs are generally defined as partnerships that have 100 or more partners during the preceding taxable year and elect to be treated as an ELP. Since the enactment of the ELP regime, few large partnerships have elected into the ELP regime. Thus, the more complex and inefficient TEFRA partnership audit and adjustment procedures apply for most large partnerships. The Administration proposes to create a new mandatory Required Large Partnership (RLP) regime for any partnership that has 1,000 or more partners at any time during the taxable year. The RLP regime would provide many of the same streamlined audit and adjustment procedures as apply to ELPs. The proposal would apply to a partnership’s taxable year ending on or after the date that is two years from the date of enactment.

Revise offer-in-compromise application rules.—Current law provides that the IRS may compromise with a taxpayer to settle any civil or criminal case arising under the Internal Revenue Code prior to a referral to the Department of Justice for prosecution or defense. In 2006, a provision was enacted to require taxpayers to make certain nonrefundable payments with any initial offer-in-compromise of a tax case. Requiring nonrefundable payments with an offer-in-compromise may substantially reduce access to the offer-in-compromise program. Reducing access to the offer-in-compromise program makes it more difficult and costly for the IRS to obtain the collectable portion of existing tax liabilities. Accordingly, the Administration proposes eliminating the requirements that an initial offer-in-compromise include a nonrefundable payment of any portion of the taxpayer’s offer. The proposal would be effective for offers-in-compromise submitted after the date of enactment.

Expand IRS access to information in the National Directory of New Hires (NDNH) for tax administration purposes.—Employment data are useful to the IRS in administering a wide range of tax provisions, including verifying taxpayer claims and identifying levy sources. Currently, the IRS may obtain employment and unemployment data on a State-by-State basis, which is a costly and time-consuming process. The Administration proposes to amend the Social Security Act to expand IRS access to the NDNH data for general tax administration purposes, including data matching, verification of taxpayer claims during return processing, preparation of substitute returns for non-compliant taxpayers, and identification of levy sources. Data obtained by the IRS from the NDNH would be protected by existing taxpayer privacy

laws, including civil and criminal sanctions. The proposal would be effective upon enactment.

Make repeated willful failure to file a tax return a felony.—Current law provides that willful failure to file a tax return is a misdemeanor punishable by a term of imprisonment for not more than one year, a fine of not more than \$25,000 (\$100,000 in the case of a corporation), or both. The Administration would modify this rule such that any person who willfully fails to file tax returns in any three years within any period of five consecutive years, if the aggregate tax liability for such period is at least \$50,000, would be subject to a new aggravated failure to file criminal penalty. The proposal would classify such failure as a felony and, upon conviction, impose a term of imprisonment for not more than five years, a fine of not more than \$250,000 (\$500,000 in the case of a corporation), or both. The proposal would be effective for returns required to be filed after December 31, 2014.

Facilitate tax compliance with local jurisdictions.—Although Federal tax returns and return information (FTI) generally are confidential, the IRS and Department of the Treasury may share FTI with States as well as certain local government entities that are treated as States for this purpose. IRS and Department of the Treasury compliance activity, especially with respect to alcohol, tobacco, and fuel excise taxes, may necessitate information sharing with ITGs. The Administration's proposal would specify that ITGs that impose alcohol, tobacco, or fuel excise taxes, or income or wage taxes, would be treated as States for purposes of information sharing to the extent necessary for ITG tax administration. The ITG that receives FTI would be required to safeguard it according to prescribed protocols. The proposal would be effective for disclosures made after enactment.

Extend statute of limitations where State adjustment affects Federal tax liability.—In general, additional Federal tax liabilities in the form of tax, interest, penalties, and additions to tax must be assessed by the IRS within three years after the date a return is filed. Pursuant to agreement, the IRS and State and local revenue agencies exchange reports of adjustments made through examination so that corresponding adjustments can be made by each taxing authority. The general statute of limitations for assessment of Federal tax liabilities serves as a barrier to the effective use by the IRS of State and local tax adjustment reports when the reports are provided by the State or local revenue agency to the IRS with little time remaining for assessments to be made at the Federal level. The Administration therefore proposes an additional exception to the general three-year statute of limitations for assessment of Federal tax liability resulting from adjustments to State or local tax liability. The statute of limitations would be extended to the later of: (1) one year from the date the taxpayer first files an amended tax return with the IRS reflecting adjustments to the State or local tax return; or (2) two years from the date the IRS first receives information from the State or local revenue agency under an information sharing agreement in place between the IRS and a State or local revenue agency. The statute of limitations would be extended

only with respect to the increase in Federal tax attributable to the State or local tax adjustment. The statute of limitations would not be further extended if the taxpayer files additional amended returns for the same tax periods as the initial amended return or the IRS receives additional information from the State or local revenue agency under an information sharing agreement. The proposal would be effective for returns required to be filed after December 31, 2014.

Improve investigative disclosure statute.—Generally, tax return information is confidential, unless a specific exception in the Internal Revenue Code applies. In the case of tax administration, the Internal Revenue Code permits the Department of the Treasury and IRS officers and employees to disclose return information to the extent necessary to obtain information not otherwise reasonably available, in the course of an audit or investigation, as prescribed by regulation. Department of the Treasury regulations effective since 2003 state that the term “necessary” in this context does not mean essential or indispensable, but rather appropriate and helpful in obtaining the information sought. Determining if an investigative disclosure is “necessary” is inherently factual, leading to inconsistent opinions by the courts. Eliminating this uncertainty from the statute would facilitate investigations by IRS officers and employees, while setting forth clear guidance for taxpayers, thus enhancing compliance with the Internal Revenue Code. The Administration proposes to clarify the taxpayer privacy law by stating that it does not prohibit Department of the Treasury and IRS officers and employees from identifying themselves, their organizational affiliation, and the nature and subject of an investigation, when contacting third parties in connection with a civil or criminal tax investigation. The proposal would be effective for disclosures made after enactment.

Require taxpayers who prepare their returns electronically but file their returns on paper to print their returns with a scannable code.—Taxpayers can prepare their returns electronically (by meeting with a tax return preparer or using tax preparation software) but may file their return on paper by printing it out and mailing it to the IRS. Electronically filed tax returns are processed more efficiently and more accurately than paper tax returns. When tax returns are filed on paper—even if that paper return was prepared electronically—the IRS must manually enter the information contained on the return into the IRS's systems. The Administration proposes to require all taxpayers who prepare their tax returns electronically but print their returns and file them on paper to print their returns with a scannable code that would enable the IRS to convert the paper return into an electronic format. The proposal would be effective for tax returns filed after December 31, 2014.

Allow the IRS to absorb credit and debit card processing fees for certain tax payments.—Taxpayers may make credit or debit card payments by phone through IRS-designated third-party service providers, who charge taxpayers a convenience fee for processing the payment over and above the taxes due. Under current law, if the IRS were to accept credit or debit card payments directly from taxpayers, the IRS would be pro-

hibited from absorbing credit and debit card processing fees. The Administration recognizes that it is inefficient for both the IRS and taxpayers to require credit and debit card payments to be made through a third-party service provider, and that charging an additional convenience fee increases taxpayers' costs. The proposal would permit the IRS to accept credit and debit card payments directly from taxpayers and to absorb the credit and debit card processing fees, but only in situations authorized by regulations. The proposal would be effective for payments made after the date of enactment.

Provide the IRS with greater flexibility to address correctable errors.—The IRS may correct certain mathematical or clerical errors made on tax returns to reflect the taxpayer's correct tax liability without following the regular deficiency procedures (this authority is generally referred to as "math error authority"). The Internal Revenue Code specifically identifies a list of circumstances where the IRS has math error authority. The Administration proposes to remove the existing specific grants of math error authority, and provide that "math error authority" will refer only to computational errors and the incorrect use of any table provided by the IRS. In addition, the proposal will add a new category of "correctable errors." Under this new category, the Department of the Treasury would have regulatory authority to permit the IRS to correct errors in cases where (1) the information provided by the taxpayer does not match the information contained in government databases, (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit, or (3) the taxpayer has failed to include with his or her return documentation that is required by statute. The proposal would increase efficiency by eliminating the need to enact legislation specifically extending math error authority to the IRS on a case-by-case basis, and would promote the efficient use of IRS and taxpayer resources. The proposal would be effective on the date of enactment. However, the IRS' current grant of math error authority would continue to apply until the Department of the Treasury and the IRS issue final regulations addressing correctable errors.

Make e-filing mandatory for exempt organizations.—The Administration proposes to require that all Form 8872 and Form 990 series tax and information returns be filed electronically. The proposal would also require the IRS to make the electronically filed returns publicly available in a machine readable format in a timely manner. The proposal would be effective for taxable years beginning after the date of enactment, after allowing time for implementation.

Authorize the Department of the Treasury to require additional information to be included in electronically filed Form 5500 Annual Reports and electronic filing of certain other employee benefit plan reports.—The annual report filing for tax-qualified employee benefit plans (as well as certain other types of plans) is a joint IRS and Department of Labor (DOL) filing requirement and is submitted electronically to both agencies on one form. This filing serves as the primary tool for gathering information and for targeting enforcement

activity. (It also serves to satisfy certain requirements for filing with the Pension Benefit Guaranty Corporation.) The DOL mandates electronic filing of this form, but the IRS lacks general statutory authority to require electronic filing of returns unless the person subject to the filing requirement must file at least 250 returns during the year. As a result, information relevant only to Internal Revenue Code requirements (such as data on coverage needed to test compliance with nondiscrimination rules) and not to DOL's Employee Retirement Income Security Act Title I jurisdiction cannot be requested on the joint form and currently is not collected. Collecting it would require a separate "IRS only" form that could be filed on paper, a process that would not be simple or efficient for taxpayers or for the IRS and DOL. The Administration proposes to provide the IRS authority to require the inclusion of information that is relevant only to employee benefit plan tax requirements in the electronically filed annual reports to the same extent that DOL can require such electronic reporting. Additionally, the IRS would be allowed to require electronic filing of a separate form that reports information to IRS and the Social Security Administration concerning plan participants who terminate employment with a right to future benefits under the plan. The proposal would be effective for plan years beginning after December 31, 2014.

Impose a penalty on failure to comply with electronic filing requirements.—Certain corporations and tax-exempt organizations (including certain charitable trusts and private foundations) are required to file their returns electronically. Although there are additions to tax for the failure to file returns, there is no specific penalty in the Internal Revenue Code for a failure to comply with a requirement to file electronically. Electronic filing increases efficiency of tax administration because the provision of tax return information in an electronic form enables the IRS to focus audit activities where they can have the greatest impact. This also assists taxpayers where the need for audit is reduced. The Administration proposes an assessable penalty for a failure to comply with a requirement of electronic (or other machine-readable) format for a return that is filed on paper. The amount of the penalty would be \$25,000 for a corporation or \$5,000 for a tax-exempt organization. The penalty would be waived if it is shown that the failure to file electronically is due to reasonable cause. The proposal would be effective for returns required to be electronically filed after December 31, 2014.

Provide whistleblowers with protection from retaliation.—Under current law, the Internal Revenue Code does not protect whistleblowers from retaliatory actions; therefore, potential whistleblowers may be discouraged from filing claims with the IRS. The Administration proposes to amend the Internal Revenue Code to protect whistleblowers from retaliation, which should incentivize potential whistleblowers to file claims and increase the tax administration benefit of the whistleblower program. The proposal would be effective upon enactment.

Provide stronger protection from improper disclosure of taxpayer information in whistleblower

actions.—The Whistleblower Office may disclose tax return information, which is generally confidential, to whistleblowers and their legal representatives as part of a whistleblower administrative proceeding. Although whistleblowers and their legal representatives must sign a confidentiality agreement before tax return information is shared, the statutory prohibitions on redisclosure of tax return information and safeguarding requirements do not apply. The Administration proposes to amend the taxpayer information protections to extend the safeguarding requirements and prohibition on redisclosure of tax return information to whistleblowers and their legal representatives. In addition, the Administration proposes to extend penalties for unauthorized redisclosure of tax return information to whistleblowers and their legal representatives. This proposal will improve the efficiency of the whistleblower award determination proceedings, while increasing the protection available to taxpayers. The proposal would be effective upon enactment.

Index all penalties for inflation.—Currently, the amount of a tax penalty that is a set dollar amount is established when the penalty is added to the Internal Revenue Code and is only increased by amendments to the Internal Revenue Code. As a result, under current practices, the amount of the penalty is often not increased until significant time has passed and the penalty amount is too low to continue serving as an effective deterrent. The Administration proposes to index all penalties for inflation and round the indexed amount to the next hundred dollars. This proposal would increase the penalty regime's effectiveness in deterring negative behavior and would increase efficiency by eliminating the need to enact increases to individual penalties. The proposal would be effective upon enactment.

Extend paid preparer EITC due diligence requirements to the child tax credit.—Under current law, paid tax return preparers completing a tax return with a claim for the EITC must complete a checklist of the EITC eligibility criteria and exercise due diligence in preparing the EITC claim. Preparers who fail to exercise due diligence are subject to a \$500 fine for each failure. The due diligence requirement educates preparers and improves EITC compliance. The eligibility criteria for the child tax credit and, in particular, the definition of a qualifying child, are nearly identical for purposes of the EITC and child tax credit. The Administration proposes to extend the due diligence requirement to claims of the child tax credit, including the additional child tax credit. This proposal would be effective for tax years beginning after December 31, 2014.

Extend IRS authority to require truncated SSNs on Form W-2.—Employers are required to file Form W-2 with the IRS, indicating the SSN, wages paid, taxes withheld and other information for each employee. Employers must also provide a copy of Form W-2 to each employee. If a copy of Form W-2 is lost or misdirected, the SSN may be used to steal the worker's identity. The proposal would allow IRS to require employers to show only the last four digits of the SSN on the employees' copies of Form W-2

to prevent identity theft. The proposal would be effective upon enactment.

Add tax crimes to the Aggravated Identity Theft Statute.—Tax refund-related identity theft has expanded exponentially in recent years. The Aggravated Identity Theft Statute contains a list of felony violations that constitute predicate offenses for aggravated identity theft but the list does not currently include any tax offenses. The Administration proposes to add tax-related offenses to the list of predicate offenses contained in the Aggravated Identity Theft Statute. This proposal would be effective upon enactment.

Impose a civil penalty on tax identity theft crimes.—The Administration proposes to impose a \$5,000 civil penalty in tax identity theft cases. The penalty would be effective upon enactment.

Allow States to send notices of intent to offset Federal tax refunds to collect State tax obligations by regular first-class mail instead of certified mail.—Under current law, the Department of the Treasury, Bureau of Fiscal Service, may offset Federal tax refunds to collect delinquent State income tax obligations only after the State sends the delinquent debtor a notice by certified mail. With respect to all other types of debts, including Federal nontax, child support, and State unemployment insurance compensation debts, the statute is silent as to the notice delivery method. However, the regulations require that for all debts other than State income tax obligations, Federal and State creditor agencies send notices by regular first class mail. Similarly, notice requirements for other debt collection actions, including administrative wage garnishment, do not require delivery by certified mail. The Administration's proposal would remove the statutory requirement to use certified mail, thereby allowing States to send notices for delinquent State income tax obligations by first class mail, saving States certified mail costs and standardizing notice procedures across debt types. The proposal would be effective upon enactment.

Explicitly provide that the Department of the Treasury and IRS have authority to regulate all paid return preparers.—Under existing law, the Department of the Treasury and IRS have the authority to regulate individuals who practice before the IRS and have promulgated rules exercising that authority in Circular 230. In June 2011, Circular 230 was revised to reflect rules issued by the Department of the Treasury and IRS clarifying that "practice before the IRS" includes the preparation of a tax return. These revisions also included the creation of Registered Tax Return Preparers, a new category of tax return preparer required to demonstrate their competence by passing an examination and completing annual continuing education requirements. Paid tax return preparers challenged these regulations in *Loving v. Commissioner*. The Court of Appeals for the District of Columbia Circuit determined that these regulations exceeded the IRS's authority. In the interest of furthering tax administration and voluntary compliance by increasing oversight of tax return preparers, the Administration proposes to explicitly provide that the Department of the

Treasury and the IRS have the authority to regulate all paid tax return preparers. The proposal would be effective on or after the date of enactment.

Rationalize tax return filing due dates so they are staggered.—The Administration’s proposal would modify tax filing due dates so that the information statements of pass-through entities would be due before individual income tax returns and the income tax returns of non-pass-through entities. The proposal would also accelerate the due date for filing information returns with the IRS or SSA and eliminate the extended due date for electronically filed information returns. Under the Administration’s proposal, which would be effective for returns required to be filed after December 31, 2014: (1) the returns of partnerships (Forms 1065 and Schedules K-1) would be due by March 15; (2) the returns of corporations other than S corporations would be due by April 15; and (3) the date for filing certain information returns with the IRS or SSA would be accelerated to January 31.

Increase the penalty applicable to paid tax preparers who engage in willful or reckless conduct.—Current law imposes a penalty on paid tax return preparers for non-willful understatements of tax due to unreasonable positions taken on a return or claim for refund, unless there is reasonable cause for the understatement and the preparer acted in good faith. The penalty for non-willful understatements is the greater of \$1,000 or 50 percent of the income derived (or to be derived) by the preparer with respect to the return or claim for refund. The Internal Revenue Code imposes a separate penalty on paid tax return preparers for understatements that occur due to a paid preparer’s willful or reckless conduct, equal to the greater of \$5,000 or 50 percent of the income derived (or to be derived) by the preparer with respect to the return or claim for refund. Because in many cases 50 percent of the income derived (or to be derived) by a preparer is greater than the fixed-dollar penalty, a preparer is often subject to the same penalty amount regardless of whether the understatement is due to willful or reckless conduct. Having the same penalty for willful and non-willful conduct does not sufficiently discourage willful or reckless conduct and is unfair to paid tax return preparers whose conduct was not willful. The proposal increases the penalty rate for understatements due to willful or reckless conduct to the greater of \$5,000 or 75 percent (instead of the current 50 percent) of the income derived (or to be derived) by the preparer with respect to the return or claim for refund. The proposal would be effective for returns required to be filed after December 31, 2014.

Enhance administrability of the appraiser penalty.—Current law imposes a penalty on preparers of appraisals that result in a substantial or gross valuation misstatement. There is an exception to the penalty if the value in the appraisal is “more likely than not” the proper value. Valuations of property are generally provided as a specific value or a range of values that are applicable, not as a value that is “more likely than not” the proper value. Further, there is no coordination between this penalty and the preparer understatement penalty in cases where the person providing the appraisal is also treated

as a paid tax return preparer with respect to the position on the return or claim for refund relying on the valuation in the appraisal. The proposal would increase administrability of the appraiser penalty by replacing the existing “more likely than not” exception with a reasonable cause exception. In addition, under the proposal, an appraiser would not be subject to both penalties for the same conduct. The proposal would be effective for returns required to be filed after December 31, 2014.

Enhance UI program integrity.—The Administration proposes to make investments in UI program integrity by increasing funding for in-person Reemployment and Eligibility Assessments, coupled with Reemployment Services, which are conducted by the States. These assessments and supplemental services help ensure that benefits go only to eligible claimants and that they get the services they need to return to work. In general, reduced outlays allow States to keep UI taxes lower, reducing overall receipts to the UI trust funds. The Administration proposes to expand State use of the Separation Information Data Exchange System (SIDES), which already improves program integrity. SIDES allows States and employers to exchange information on reasons for a claimant’s separation from employment, which helps States determine UI eligibility; separation issues are the second largest cause of UI improper payments. In addition, the Administration proposes to require States to cross match claimants against the Prisoner Update Processing System (PUPS), which is currently used by some States. Mandating the use of PUPS will reduce or eliminate improper payments to prisoners by identifying claimants ineligible due to incarceration. Finally, the Administration proposes legislation to reduce an individual’s Social Security Disability Insurance (DI) benefit in any month in which that person also receives a State or Federal UI benefit. This proposal would eliminate duplicative payments covering the same period a beneficiary is out of the workforce, while still providing a base level of income support. While the primary impact of this proposal will be to reduce DI benefits, UI benefit outlays will also be reduced.

Simplify the Tax System

Simplify the rules for claiming the EITC for workers without qualifying children.—The EITC generally equals a specified percentage of earned income, up to a maximum dollar amount, that is reduced by the product of a specified phaseout rate and the amount of earned income or AGI, if greater, in excess of a specified income threshold. Different credit schedules apply for taxpayers based on the number of qualifying children the taxpayer claims. In general, taxpayers with low wages who do not have a qualifying child may be eligible to claim the small EITC for workers without qualifying children. However, if the taxpayer resides with a qualifying child whom the taxpayer does not claim (perhaps because that child is claimed by another individual within the household), the taxpayer is not eligible for any EITC. The Administration proposes to allow otherwise eligible taxpayers residing with qualifying children to claim the EITC for workers

without qualifying children. This proposal would be effective for tax years beginning after December 31, 2014.

Modify adoption credit to allow tribal determination of special needs.—Current law allows a more generous credit for the adoption of children with special needs. To claim this credit, a State must have made a determination that the child has special needs. Like States, many ITGs facilitate adoptions involving special needs children; however, currently, a tribe is not permitted to make the determination of special needs. The Administration proposes to allow ITGs to make this determination, effective for tax years beginning after December 31, 2014.

Simplify minimum required distribution (MRD) rules.—The MRD rules generally require that participants in tax-favored retirement plans and owners of IRAs commence distributions shortly after attaining age 70 1/2 and that these retirement assets be distributed to them (or their spouses or other beneficiaries) over a period based on the joint life expectancy of the owner or plan participant and the designated beneficiary. The penalty for failure to take a minimum required distribution by the applicable deadline is 50 percent of the amount not withdrawn. The Administration proposes to simplify tax compliance for retirees of modest means by exempting an individual from the MRD requirements if the aggregate value of the individual's IRA and tax-favored retirement plan accumulations does not exceed \$100,000 on a measurement date. The MRD requirements would phase in for individuals with aggregate retirement balances between \$100,000 and \$110,000. The initial measurement date for the dollar threshold would be the beginning of the year in which the individual turns 70 1/2 or dies, with additional measurement dates only if the individual is subsequently credited with amounts (other than earnings) that were not previously taken into account. The Administration also proposes to harmonize the application of the MRD requirements for holders of designated Roth accounts and of Roth IRAs by generally treating Roth IRAs in the same manner as all other tax-favored retirement accounts, i.e., requiring distributions to begin shortly after age 70 1/2, without regard to whether amounts are held in designated Roth accounts or in Roth IRAs. Consistent with this change to the MRD rules for Roth IRAs, individuals also would not be permitted to make additional contributions to Roth IRAs after they reach age 70 1/2. The proposal would be effective for taxpayers attaining age 70 1/2 and taxpayers who die before age 70 1/2 after December 31, 2014.

Allow all inherited plan and IRA balances to be rolled over within 60 days.—Generally, most amounts distributed from qualified plans or IRAs may be rolled over into another IRA or into an eligible retirement plan. However, the movement of assets from a plan or IRA account inherited by a non-spouse beneficiary cannot be accomplished by means of a 60-day rollover. This difference in treatment between plan and IRA accounts inherited by a non-spouse beneficiary and accounts of living participants serves little if any purpose, generates confusion among plan and IRA administrators, and creates a trap for unwary beneficiaries. The Administration proposes

to permit rollovers of distributions to all designated beneficiaries of inherited IRA and plan accounts, subject to inherited IRA treatment, under the same rules that apply to other IRA accounts, beginning January 1, 2015.

Repeal non-qualified preferred stock designation.—In 1997, a provision was added to the Internal Revenue Code that treats as taxable “boot” the receipt of certain types of preferred stock known as non-qualified preferred stock (NQPS), where NQPS is issued in a corporate organization or reorganization exchange. Since enactment, taxpayers have often exploited the hybrid nature of NQPS, issuing NQPS in transactions that are inconsistent with the purpose of the 1997 provision. The Administration proposes to repeal the NQPS designation, and no longer treat the receipt of such stock as taxable boot. The proposal would be effective for stock issued after December 31, 2014.

Repeal preferential dividend rule for publicly traded and publicly offered Real Estate Investment Trusts (REITs).—REITs and regulated investment companies (RICs) may claim a deduction for dividends paid. Historically, however, a dividends paid deduction was not available for a “preferential dividend.” A dividend is “preferential” unless it is distributed pro rata to shareholders, with no preference to any share of stock as compared with other shares of the same class, and with no preference to one class compared with another except to the extent the class is entitled to such preference. There are no exceptions for *de minimis* or accidental violations. The preferential dividend rule has been repealed for most RICs. The Administration proposes to repeal the preferential dividend rule for publicly traded and publicly offered REITs as well. The Department of the Treasury would also be given explicit authority to provide for cures of inadvertent violations of the preferential dividend rule where it continues in effect and, where appropriate, to require consistent treatment of shareholders. The proposal would apply to distributions in taxable years beginning after the date of enactment.

Reform excise tax based on investment income of private foundations.—Under current law, private foundations that are exempt from Federal income tax are subject to a two-percent excise tax on their net investment income (one-percent if certain requirements are met). The excise tax on private foundations that are not exempt from Federal income tax, such as certain charitable trusts, is equal to the excess of the sum of the excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. To simplify the tax laws and encourage increased charitable activity, the Administration proposes to replace the two rates of tax on the net investment income of private foundations that are exempt from Federal income tax with a single tax rate of 1.35 percent. The excise tax on private foundations not exempt from Federal income tax would be equal to the excess of the sum of the 1.35-percent excise tax that would have been imposed if the foundation were tax exempt and the amount of the unrelated business

income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. The proposed change would be effective for taxable years beginning after the date of enactment.

Remove bonding requirements for certain taxpayers subject to Federal excise taxes on distilled spirits, wine, and beer.—The Administration proposes to exempt from current law bond requirements taxpayers subject to Federal excise taxes on alcoholic beverages (manufacturers, producers, and importers of distilled spirits, wine, and beer) with an expected tax liability for these taxes of not more than \$50,000 in the current year, who had a tax liability for these taxes of not more than \$50,000 in the prior year. The Administration also proposes to change the excise tax filing and payment period for these taxpayers to quarterly rather than semi-monthly. A substantial number of these taxpayers continue to file and pay their taxes semi-monthly even though they are currently eligible for quarterly filing and payment because quarterly filing raises their deferral bond amounts. Eliminating the bond requirement would make quarterly filing less burdensome for these taxpayers and would reduce the burden of processing tax returns and payments for the Alcohol and Tobacco Tax and Trade Bureau. The Administration also proposes to allow taxpayers subject to Federal excise taxes on alcoholic beverages with an expected tax liability for these taxes of not more than \$1,000 in the current year to file and pay their taxes annually. The provision would be effective 90 days after the date of enactment.

Simplify arbitrage investment restrictions.—Current law arbitrage investment restrictions imposed on investments of tax-exempt bond proceeds create unnecessary complexity and compliance burdens for State and local governments. These restrictions generally limit investment returns that exceed the effective interest rate on the tax-exempt bonds. One type of restriction, called “yield restriction,” limits arbitrage earnings in the first instance, and the second type of restriction, called “rebate,” requires repayment of arbitrage earnings to the Federal government at periodic intervals. The two types of arbitrage restrictions are duplicative and overlapping and they address the same tax policy goal to limit arbitrage profit incentives for excess use of tax-exempt bonds. The Administration proposes to simplify the arbitrage investment restrictions on tax-exempt bonds in several respects. First, the Administration proposes to unify the arbitrage restrictions to rely primarily on the rebate requirement and to repeal yield restriction in most circumstances. Second, recognizing that limited arbitrage potential exists if issuers spend bond proceeds fairly promptly, the Administration proposes a streamlined broad three-year prompt spending exception to the arbitrage rebate requirement on tax-exempt bonds. Finally, recognizing the particular compliance burdens for small issuers, the Administration proposes to increase the small issuer exception to the arbitrage rebate requirement from \$5 million to \$10 million, index the size limit for inflation, and remove the general taxing power constraint on small is-

suer eligibility. The proposal would be effective for bonds issued after the date of enactment.

Simplify single-family housing mortgage bond targeting requirements.—Current law allows use of tax-exempt private activity bonds to finance qualified mortgages for single-family residences, subject to a number of targeting requirements, including, among others: (1) a mortgagor income limitation (generally not more than 115 percent of applicable median family income, increased to 140 percent of such income for certain targeted areas, and also increased for certain high-cost areas); (2) a purchase price limitation (generally not more than 90 percent of average area purchase prices, increased to 110 percent in targeted areas); (3) a refinancing limitation (generally permitting only new mortgages for first-time homebuyers); and (4) a targeted area availability requirement. The Administration proposes to simplify the targeting requirements for tax-exempt qualified mortgage bonds by repealing the purchase price limitation and the refinancing limitation. This proposal would be effective for bonds issued after the date of enactment.

Streamline private business limits on governmental bonds.—Tax-exempt bonds issued by State and local governments are treated as governmental bonds if the issuer limits private business use and other private involvement sufficiently to avoid treatment as “private activity bonds.” Bonds generally are classified as private activity bonds under a two-part test if more than 10 percent of the bond proceeds are both: (1) used for private business use; and (2) payable or secured from property or payments derived from private business use. A subsidiary restriction further reduces the private business limits on governmental bonds to five percent in the case of private business use that is unrelated or disproportionate to governmental use. This unrelated or disproportionate use test introduces undue complexity associated with factual determinations of relatedness, a narrow disqualification trigger, and attendant compliance burdens for State and local governments. The general 10-percent private business limit represents a sufficient and workable boundary for private involvement for governmental bonds. The Administration proposes to streamline the private business limits on governmental bonds by repealing the five-percent unrelated or disproportionate private business limit. This proposal would be effective for bonds issued after the date of enactment.

Exclude self-constructed assets of small taxpayers from the uniform capitalization (UNICAP) rules.—Under the UNICAP rules, taxpayers that produce property or acquire property for resale are required to capitalize direct and indirect costs to the property produced or acquired. Compliance with this requirement is significantly burdensome for taxpayers that are not otherwise subject to the rules as producers or resellers of inventory (i.e., for self-constructed assets). The Administration proposes an exclusion for these small business taxpayers, which would relieve both taxpayers and tax administrators from spending resources on compliance for this group of taxpayers. This proposal would be effective for expenses in-

curred for self-constructed property by eligible taxpayers after December 31, 2014.

Repeal technical terminations of partnerships.—A partnership will terminate when 50 percent or more of the total interest in partnership capital and profits is sold or exchanged within a 12-month period. This is referred to as a “technical termination.” This provision is a holdover that addressed the notion common under prior State laws that tied the identity of a partnership to its partners. As this view of partnerships has evolved, the utility of the provision has essentially been eliminated, and it is now primarily a trap for unwary taxpayers. The Administration proposes eliminating technical terminations effective for transfers after December 31, 2014.

Repeal anti-churning rules of section 197.—Section 197 of the Internal Revenue Code was enacted in 1993 to allow amortization of certain intangibles (such as goodwill and going concern value) that had not been amortizable under prior law. Anti-churning rules were enacted at that time to prevent taxpayers from engaging in transactions with related parties soon after the enactment of section 197 solely to generate amortizable basis. Because it has been 20 years since the enactment of section 197, the anti-churning rules are no longer necessary, and the complexity of the provision outweighs the potential application. The Administration proposes eliminating the anti-churning rules effective for acquisitions after December 31, 2014.

Repeal special estimated tax payment provision for certain insurance companies.—The deductible unpaid loss reserves of insurance companies are required to be computed on a discounted basis to reflect the time value of money. However, a taxpayer may elect to deduct an additional amount equal to the difference between discounted and undiscounted reserves, if it also makes a “special estimated tax payment” equal to the tax benefit attributable to the extra deduction. The special estimated tax payments are applied against the company’s tax liability in future years as reserves are released. This provision requires complex record keeping yet, by design, is revenue neutral. The Administration proposes to repeal the provision effective for taxable years beginning after December 31, 2014.

Repeal the telephone excise tax.—Current law imposes a three-percent excise tax on amounts paid for taxable communications services, which include local telephone service and toll telephone service. Local telephone service is defined as access to a local telephone system and the privilege of telephonic communication with substantially all persons having telephones in the local system. Taxpayers are no longer required to pay tax on similar services, such as plans that provide bundled local and long distance service for either a flat monthly fee or a charge that varies with the elapsed transmission time for which the service is used. As a result, the only communications services that remain subject to the tax are purely local telephone services, of which the poor and the elderly are the primary users. The Administration proposes to repeal the tax on these services. The proposal would be

effective for amounts paid pursuant to bills first rendered more than 90 days after the date of enactment.

Increase the standard mileage rate for automobile use by volunteers.—Under current law, volunteers may deduct the use of their car in the service of charitable organizations at a standard mileage rate of 14 cents per mile driven. This rate is set by statute and is not indexed for inflation; it was last increased in 1997. The Administration proposes to harmonize the standard mileage rate for the charitable contribution deduction with the rate for miles driven for purposes of the medical and moving expense deductions, which are set annually by the IRS to cover the estimated variable costs of operating an automobile. The proposal would be effective for tax years beginning after December 31, 2014.

User Fees

Reform inland waterways funding.—The Administration has proposed legislation to reform the laws governing the Inland Waterways Trust Fund, including establishing an annual per vessel fee to increase the amount paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this fund. The additional revenue would help finance future capital investments in these waterways to support economic growth. In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams, and other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs.

Increase fees for Migratory Bird Hunting and Conservation Stamps.—Federal Migratory Bird Hunting and Conservation Stamps, commonly known as “Duck Stamps,” were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, 98 percent of the receipts generated from the sale of these stamps (\$15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas. The land and water interest located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 20 years. The Administration proposes to increase these fees to \$25 per stamp per year, effective beginning in 2015.

Establish a mandatory surcharge for air traffic services.—All flights that use controlled air space require a similar level of air traffic services. However, commercial and general aviation can pay very different aviation fees for those same air traffic services. To more equitably share the cost of air traffic services across the aviation user community, the Administration proposes to establish a new surcharge for air traffic services of \$100 per flight. Military aircraft, public aircraft, piston aircraft, air ambulances, aircraft operating outside of controlled airspace,

and Canada-to-Canada flights would be exempted. The surcharge would be effective for flights beginning after September 30, 2014.

Reauthorize special assessment on domestic nuclear utilities.—The Administration proposes to reauthorize the special assessment on domestic nuclear utilities, for deposit in the Uranium Enrichment Decontamination and Decommissioning Fund. Established in 1992, the Fund pays, subject to appropriations, the decontamination and decommissioning costs of the Department of Energy's gaseous diffusion plants in Tennessee, Ohio, and Kentucky. Additional resources from the proposed special assessment are required due to higher-than-expected cleanup costs.

Permanently extend and reallocate the travel promotion surcharge.—Under the Travel Promotion Act of 2009, a \$10 surcharge is added to the existing Electronic System for Travel Authorization user fee that travelers from visa waiver countries pay before arriving in the United States. Under current law, \$100 million of the amount collected from the surcharge in each year may be used by the Corporation for Travel Promotion (BrandUSA) in support of travel promotion activities. The Administration proposes to permanently extend the authorization to collect the surcharge, which is scheduled to expire on September 30, 2015. Under the proposal, 80 percent of the amount collected will be allocated to BrandUSA and 20 percent will be allocated to U.S. Customs and Border Protection. These funds will support BrandUSA's efforts to promote international travel to the United States, thereby increasing U.S. tourism exports, and the hiring of 125 new officers by CBP, which will reduce wait times for travelers entering the United States.

Trade Initiative

Extend Generalized System of Preferences (GSP).—This program provides preferential, duty-free entry to the United States for nearly 5,000 products from 127 designated beneficiary countries and territories. Many GSP imports are used as inputs by U.S. companies to manufacture goods in the United States. The Administration proposes to extend GSP, which expired on July 31, 2013, through December 31, 2015.

Other Initiatives

Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state residents.—Under current law, Federal tax refunds may be offset to collect delinquent State income tax obligations, but only if the delinquent taxpayer resides in the State collecting the tax. The Administration proposes to allow Federal tax refunds to be offset to collect delinquent State tax obligations regardless of where the debtor resides. The proposal would be effective on the date of enactment.

Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy.—Synchronization of business lists among the Bureau of Economic Analysis

(BEA), the Bureau of Labor Statistics (BLS), and the Bureau of the Census (Census Bureau) would significantly improve the consistency and quality of sensitive economic statistics including productivity, payroll, employment, and average hourly earnings. The availability of accurate economic statistics is crucial to policy makers. Current law authorizes IRS disclosure of certain Federal tax information (FTI) for governmental statistical use. Business FTI may be disclosed to officers and employees of the Census Bureau for all businesses. Similarly, business FTI may be disclosed to BEA officers and employees, but only for corporate businesses. Currently, BLS is not authorized to receive FTI. The Census Bureau's Business Register is constructed using both FTI and non-tax business data derived from the Economic Census and current economic surveys, so that under current law it is not possible for the Census Bureau to share data with BEA and BLS in any meaningful way, making synchronizing of their business lists impossible. In addition, given the growth of non-corporate businesses, especially in the service sector, the current limitation on BEA's access to corporate FTI impedes the measurement of income and international transactions in the National Accounts. The Administration proposes to give officers and employees of BEA and BLS access to certain FTI of corporate and non-corporate businesses. Additionally, for the purpose of synchronizing BLS and Census Bureau business lists, the proposal would permit employees of State agencies to receive certain business FTI from BLS. No BEA, BLS, or State agency contractor would have access to FTI. Additionally, the Census Bureau, BEA, BLS, and the State agencies would be subject to the confidentiality safeguard procedures in the Confidential Information Protection and Statistical Efficiency Act, as well as taxpayer privacy law and related safeguards and penalties. The proposal would be effective upon enactment.

Eliminate certain reviews conducted by the U.S. Treasury Inspector General for Tax Administration (TIGTA).—Under current law, TIGTA conducts reviews to comply with reporting requirements. The Administration proposes to eliminate TIGTA's obligation to report information regarding any administrative or civil actions related to Fair Tax Collection Practices violations in one of TIGTA's Semiannual Reports, review and certify annually that the IRS is complying with the requirements of section 6103(e)(8) regarding information on joint filers, and annually report on the IRS's compliance with sections 7521(b)(2) and (c) requiring IRS employees to stop a taxpayer interview whenever a taxpayer requests to consult with a representative and to obtain their immediate supervisor's approval to contact the taxpayer instead of the representative if the representative has unreasonably delayed the completion of an examination or investigation. The proposal would revise the annual reporting requirement for all remaining provisions in the IRS Restructuring and Reform Act of 1998 to a biennial reporting requirement. The proposal would be effective after December 31, 2014.

Modify indexing to prevent deflationary adjustments.—Many parameters of the tax system – including the size of personal exemptions and standard deductions, the width of income tax rate brackets, the amount of other deductions and credits, and the maximum amount of various saving and retirement deductions – may be adjusted annually for the effects of inflation, based on annual changes in the Consumer Price Index. Under current law, if price levels decline, most (but not all) of the inflation adjustment provisions would permit tax parameters to become smaller, so long as they do not decline to less than their base period values. The Administration proposes to modify inflation adjustment provisions to prevent the size of all indexed tax parameters from decreasing from the previous year's levels if the underlying price index falls. Subsequent inflation-related increases would be based on the highest previous level of the price index relevant for adjusting the particular tax parameter. The proposal would be effective as of the date of enactment.

Immigration Reform

Enact comprehensive immigration reform.—The Administration proposes to enact comprehensive immigration reform that strengthens the Nation's border security, cracks down on employers who hire undocumented workers, and provides a pathway to earned citizenship for individuals who pay a penalty and taxes, learn English, pass a background check, and go to the back of the line. Comprehensive immigration reform will contribute to a safer and more just society, boost economic growth, reduce deficits, and improve the solvency of Social Security. The Administration supports the approach to immigration reform in S. 744, which passed the Senate last year with bipartisan support. The Congressional Budget Office (CBO) estimated that the Senate-passed bill would reduce the deficit by about \$160 billion in the first decade and by about \$850 billion over 20 years. The 2015 Budget includes an allowance for the budget effects of immigration reform based on the CBO cost estimate for this bill.

Table 12–4. EFFECT OF BUDGET PROPOSALS
(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
Incentives for job creation, clean energy, and manufacturing:													
Provide additional tax credits for investment in qualified property used in a qualifying advanced energy manufacturing project			–86	–398	–660	–641	–285	–8	61	66	55	–1,785	–1,896
Designate Promise Zones ¹		–366	–693	–641	–609	–594	–588	–582	–583	–598	–622	–2,903	–5,876
Provide new Manufacturing Communities tax credit		–20	–104	–275	–454	–589	–676	–737	–749	–646	–414	–1,442	–4,664
Provide a tax credit for the production of advanced technology vehicles		–705	–675	–753	–875	–984	–850	–537	–21	281	294	–3,992	–4,825
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles		–54	–86	–71	–64	–65	–47	–14	.....	.....	.....	–340	–401
Modify tax-exempt bonds for ITGs		–4	–12	–12	–12	–12	–12	–12	–12	–12	–12	–52	–112
Extend the tax credit for cellulosic biofuel	–30	–70	–121	–157	–178	–204	–236	–237	–210	–171	–114	–730	–1,698
Modify and extend the tax credit for the construction of energy-efficient new homes	–78	–127	–137	–163	–182	–199	–215	–231	–246	–261	–287	–808	–2,048
Reduce excise taxes on LNG to bring into parity with diesel ²		–2	–2	–2	–2	–2	–2	–2	–2	–2	–2	–10	–20
Total, incentives for job creation, clean energy, and manufacturing	–108	–1,348	–1,916	–2,472	–3,036	–3,290	–2,911	–2,360	–1,762	–1,343	–1,102	–12,062	–21,540
Incentives for investment in infrastructure:													
Provide America Fast Forward Bonds and expand eligible uses ¹			–1	.....	.....	.....	1	–1	–1	.....	1	–1	–1
Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories ¹		–1	–4	–10	–14	–21	–27	–32	–39	–46	–52	–50	–246
Allow current refundings of State and local governmental bonds		–3	–5	–5	–5	–5	–5	–5	–5	–5	–5	–23	–48
Repeal the \$150 million non-hospital bond limitation on all qualified 501(c)(3) bonds			–1	–3	–5	–7	–9	–11	–13	–16	–17	–16	–82
Increase national limitation amount for qualified highway or surface freight transfer facility bonds			–3	–16	–34	–52	–72	–92	–113	–133	–154	–105	–669
Eliminate the volume cap for private activity bonds for water infrastructure ...			–3	–5	–9	–14	–20	–27	–33	–41	–49	–31	–201

Table 12-4. EFFECT OF BUDGET PROPOSALS—Continued
(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Increase the 25-percent limit on land acquisition restriction on private activity bonds	-2	-4	-8	-11	-15	-19	-23	-27	-32	-25	-141
Allow more flexible research arrangements for purposes of private business use limits	-1	-1	-1	-1	-3	-3	-3	-2	-13
Repeal the government ownership requirement for certain types of exempt facility bonds	-14	-66	-140	-216	-290	-364	-437	-509	-579	-644	-726	-3,259
Exempt foreign pension funds from the application of FIRPTA	-114	-196	-205	-216	-227	-238	-250	-262	-275	-289	-958	-2,272
Total, incentives for investment in infrastructure	-132	-281	-388	-508	-628	-750	-875	-1,001	-1,125	-1,244	-1,937	-6,932
Tax cuts for families and individuals:													
Expand EITC for workers without qualifying children ¹	-490	-6,308	-6,335	-6,362	-6,444	-6,536	-6,653	-6,760	-6,874	-6,978	-25,939	-59,740
Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs ¹	-817	-1,276	-1,309	-1,410	-1,552	-1,728	-1,902	-2,137	-2,376	-4,812	-14,507
Expand child and dependent care tax credit ¹	-287	-1,064	-1,060	-1,056	-1,045	-1,039	-1,030	-1,021	-1,011	-997	-4,512	-9,610
Extend exclusion from income for cancellation of certain home mortgage debt	-2,687	-3,497	-3,343	-825	.....	.....	.....	.....	.....	.....	.....	-7,665	-7,665
Provide exclusion from income for student loan forgiveness for students in certain income-based or income-contingent repayment programs who have completed payment obligations	-2	-3	.....	-5
Provide exclusion from income for student loan forgiveness and for certain scholarship amounts for participants in the IHS Health Professions Programs	-6	-14	-14	-15	-16	-18	-19	-20	-21	-22	-65	-165
Make Pell Grants excludable from income ¹	-23	-768	-1,184	-1,116	-1,068	-1,019	-977	-938	-904	-867	-4,159	-8,864
Total, tax cuts for families and individuals	-2,687	-4,303	-12,314	-10,694	-9,858	-9,983	-10,164	-10,407	-10,641	-10,949	-11,243	-47,152	-100,556
Upper-income tax provisions:													
Reduce the value of certain tax expenditures	26,587	43,356	47,943	53,259	58,632	63,750	68,720	73,649	78,581	83,589	229,777	598,066
Implement the Buffett Rule by imposing a new "Fair Share Tax"	10,536	-1,241	1,609	4,383	5,598	5,874	6,173	6,427	6,645	7,022	20,885	53,026
Total, upper-income tax provisions	37,123	42,115	49,552	57,642	64,230	69,624	74,893	80,076	85,226	90,611	250,662	651,092
Modify estate and gift tax provisions:													
Restore the estate, gift, and GST tax parameters in effect in 2009	15,930	17,309	18,846	20,412	22,250	23,535	15,930	118,282
Require consistency in value for transfer and income tax purposes	215	228	242	257	272	290	310	333	354	942	2,501
Require a minimum term for GRATs	244	325	411	504	602	711	843	1,004	1,067	1,484	5,711
Limit duration of GST tax exemption
Coordinate certain income and transfer tax rules applicable to grantor trusts	59	77	97	125	157	201	256	326	346	358	1,644
Extend the lien on estate tax deferrals where estate consists largely of interest in closely held business	19	20	21	22	23	24	26	28	30	82	213
Modify GST tax treatment of HEETs	-30	-29	-27	-26	-24	-23	-21	-20	-18	-112	-218
Simplify gift tax exclusion for annual gifts	70	138	205	268	328	358	435	517	605	681	2,924
Expand applicability of definition of executor
Total, modify estate and gift tax provisions	577	759	949	17,080	18,667	20,407	22,261	24,438	25,919	19,365	131,057
Reform treatment of financial industry institutions and products:													
Impose a financial crisis responsibility fee	3,058	6,142	6,271	6,395	6,507	6,673	6,830	6,993	7,155	21,866	56,024
Require current inclusion in income of accrued market discount and limit the accrual amount for distressed debt	14	38	47	46	44	41	36	32	28	24	189	350

Table 12-4. EFFECT OF BUDGET PROPOSALS—Continued

(In millions of dollars)

[illegible]

(In millions of dollars)

[illegible]

Table 12-4. EFFECT OF BUDGET PROPOSALS—Continued
(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-19	2015-24
Index all penalties for inflation	45	60	61	62	63	65	66	68	70	71	291	631
Extend paid preparer EITC due diligence requirements to the child tax credit
Extend IRS authority to require truncated SSNs on Form W-2
Add tax crimes to the Aggravated Identity Theft Statute
Impose a civil penalty on tax identity theft crimes
Allow States to send notices of intent to offset Federal tax refunds to collect State tax obligations by regular first-class mail instead of certified mail
Explicitly provide that the Department of the Treasury and IRS have authority to regulate all paid return preparers
Rationalize tax return filing due dates so they are staggered ¹	210	220	230	242	252	263	273	285	297	309	1,154	2,581
Increase the penalty applicable to paid tax preparers who engage in willful or reckless conduct	1	1	1	1	1	1	1	1	3	8
Enhance administrability of the appraiser penalty
Enhance UI program integrity ²	-1	-5	-15	-38	-55	-74	-86	-101	-198	-59	-573
Subtotal, strengthen tax administration	309	1,154	2,276	3,630	5,055	6,514	7,724	8,552	9,007	9,322	9,476	18,629	62,710
Total, reduce the tax gap and make reforms	313	1,272	2,803	4,578	6,202	7,752	9,063	9,995	10,561	10,994	11,270	22,607	74,490
Simplify the tax system:													
Simplify the rules for claiming the EITC for workers without qualifying children ¹	-44	-587	-599	-612	-598	-609	-621	-632	-598	-609	-2,440	-5,509
Modify adoption credit to allow tribal determination of special needs	-1	-1	-1	-1	-1	-1	-1	-6
Simplify MRD rules	-5	-5	-3	5	19	38	60	88	122	165	11	484
Allow all inherited plan and IRA balances to be rolled over within 60 days
Repeal non-qualified preferred stock designation	31	52	51	50	47	44	39	34	30	27	231	405
Repeal preferential dividend rule for publicly traded and publicly offered REITs
Reform excise tax based on investment income of private foundations	-4	-4	-5	-5	-5	-5	-6	-6	-7	-18	-47
Remove bonding requirements for certain taxpayers subject to Federal excise taxes on distilled spirits, wine, and beer
Simplify arbitrage investment restrictions	-2	-10	-18	-28	-38	-46	-58	-68	-76	-87	-96	-431
Simplify single-family housing mortgage bond targeting requirements	-1	-3	-5	-7	-10	-12	-17	-20	-22	-24	-26	-121
Streamline private business limits on governmental bonds	-1	-3	-5	-7	-9	-11	-13	-15	-17	-19	-25	-100
Exclude self-constructed assets of small taxpayers from the UNICAP rules	-47	-50	-68	-71	-90	-95	-98	-103	-107	-112	-326	-841
Repeal technical terminations of partnerships	16	20	21	22	23	23	24	25	25	26	102	225
Repeal anti-churning rules of section 197	-25	-106	-209	-278	-313	-328	-331	-331	-331	-331	-931	-2,583
Repeal special estimated tax payment provision for certain insurance companies
Repeal the telephone excise tax ²	-419	-357	-302	-253	-213	-178	-148	-122	-102	-83	-1,544	-2,177
Increase the standard mileage rate for automobile use by volunteers	-16	-47	-45	-44	-44	-44	-45	-46	-48	-49	-196	-428
Total, simplify the tax system	-513	-1,100	-1,186	-1,228	-1,232	-1,224	-1,214	-1,197	-1,131	-1,104	-5,259	-11,129

Table 12-4. EFFECT OF BUDGET PROPOSALS—Continued
(In millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
User fees:													
Reform inland waterways funding ²		82	113	113	113	113	113	113	113	113	114	534	1,100
Increase fees for Migratory Bird Hunting and Conservation Stamps		14	14	14	14	14	14	14	14	14	14	70	140
Establish a mandatory surcharge for air traffic services ²		725	756	787	816	844	870	894	921	947	973	3,928	8,533
Reauthorize special assessment on domestic nuclear utilities		200	204	209	213	218	223	229	234	239	245	1,044	2,214
Permanently extend and reallocate the travel promotion surcharge			114	118	123	126	129	132	135	139	142	481	1,158
Total, user fees		1,021	1,201	1,241	1,279	1,315	1,349	1,382	1,417	1,452	1,488	6,057	13,145
Trade initiative:													
Extend GSP ²	-372	-696	-161									-857	-857
Other initiatives:													
Allow offset of Federal income tax refunds to collect delinquent State income taxes for out-of-state residents													
Authorize the limited sharing of business tax return information to improve the accuracy of important measures of the economy													
Eliminate certain reviews conducted by the U.S. TIGTA													
Modify indexing to prevent deflationary adjustments													
Total, other initiatives													
Transition to a reformed business tax system		37,500	37,500	37,500	37,500							150,000	150,000
Enact comprehensive immigration reform ...		2,000	12,000	28,000	39,000	45,000	47,000	55,000	64,000	77,000	87,000	126,000	456,000
Total, effect of proposals	-2,854	86,378	102,544	144,602	167,144	155,920	166,955	183,992	199,944	221,664	237,715	656,588	1,666,858

¹ This proposal affects both receipts and outlays. Both effects are shown here. The outlay effects included in these estimates are listed below:

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015–19	2015–24
Designate Promise Zones		11	23	23	25	26	28	30	31	33	36	108	266
Provide America Fast Forward Bonds and expand eligible uses		216	966	2,051	3,221	4,505	5,878	7,325	8,826	10,360	11,914	10,959	55,262
Allow eligible uses of America Fast Forward Bonds to include financing all qualified private activity bond categories		50	227	489	765	1,054	1,356	1,668	1,990	2,319	2,651	2,585	12,569
Expand EITC for workers without qualifying children		272	5,436	5,457	5,476	5,545	5,623	5,722	5,811	5,900	5,981	22,186	51,223
Provide for automatic enrollment in IRAs, including a small employer tax credit, and double the tax credit for small employer plan start-up costs			96	148	150	152	153	156	160	164	168	546	1,347
Expand child and dependent care tax credit			347	342	348	352	362	368	374	382	392	1,389	3,267
Make Pell Grants excludable from income			547	959	906	862	824	793	764	735	704	3,274	7,094
Modify reporting of tuition expenses and scholarships on Form 1098-T			-20	-20	-20	-20	-20	-20	-20	-21	-21	-80	-182
Provide the IRS with greater flexibility to address correctable errors		-3	-6	-7	-7	-7	-8	-8	-8	-9	-9	-30	-72
Rationalize tax return filing due dates so they are staggered		-28	-28	-28	-29	-29	-30	-30	-31	-32	-33	-142	-298
Simplify the rules for claiming the EITC for workers without qualifying children		26	516	526	538	526	536	546	556	526	536	2,132	4,832
Total, outlay effects of receipt proposals		544	8,104	9,940	11,373	12,966	14,702	16,550	18,453	20,357	22,319	42,927	135,308

² Net of income offsets.

Table 12–5. RECEIPTS BY SOURCE
(In millions of dollars)

Source	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Individual income taxes:												
Federal funds	1,316,405	1,388,651	1,498,347	1,606,057	1,726,605	1,854,210	1,970,901	2,094,486	2,222,983	2,352,854	2,487,207	2,621,810
Legislative proposal, not subject to PAYGO			370	1,265	2,584	3,979	5,428	6,622	7,433	7,853	8,141	8,349
Legislative proposal, subject to PAYGO		–2,583	35,225	40,428	51,488	61,874	70,807	77,408	83,635	89,952	96,155	102,943
Total, Individual income taxes	1,316,405	1,386,068	1,533,942	1,647,750	1,780,677	1,920,063	2,047,136	2,178,516	2,314,051	2,450,659	2,591,503	2,733,102
Corporation income taxes:												
Federal funds:												
Federal funds	273,506	332,524	411,581	463,261	488,226	500,735	512,376	523,683	537,921	552,485	565,651	585,440
Legislative proposal, subject to PAYGO		216	36,470	37,107	38,329	37,677	496	1,418	2,389	3,340	4,085	4,746
Total, Federal funds	273,506	332,740	448,051	500,368	526,555	538,412	512,872	525,101	540,310	555,825	569,736	590,186
Trust funds:												
Legislative proposal, subject to PAYGO			969	1,333	1,422	1,467	1,501	1,515	1,549	1,592	1,634	1,677
Total, Corporation income taxes	273,506	332,740	449,020	501,701	527,977	539,879	514,373	526,616	541,859	557,417	571,370	591,863
Social insurance and retirement receipts (trust funds):												
Employment and general retirement:												
Old-age survivors insurance (off-budget)	575,555	626,034	646,103	691,109	725,133	765,976	805,611	841,474	887,833	931,920	973,374	1,017,725
Legislative proposal, not subject to PAYGO						2	4	5	6	9	9	16
Legislative proposal, subject to PAYGO		2	1,762	2,585	1,340	1,477	2,286	2,565	2,802	3,273	3,455	3,832
Disability insurance (off-budget)	97,719	106,296	109,713	117,359	123,136	130,071	136,802	142,892	150,765	158,250	165,290	172,821
Legislative proposal, not subject to PAYGO							1	1	1	1	2	3
Legislative proposal, subject to PAYGO			299	438	227	251	387	435	475	556	585	649
Hospital Insurance	209,270	219,463	231,046	247,628	260,927	276,262	290,674	303,651	320,331	336,383	351,645	368,484
Legislative proposal, not subject to PAYGO								2	2	3	2	4
Legislative proposal, subject to PAYGO		7	679	1,445	1,693	1,945	2,260	2,433	2,597	2,833	2,991	3,203
Railroad retirement:												
Social security equivalent account	2,110	2,258	2,302	2,366	2,442	2,516	2,587	2,660	2,733	2,807	2,883	2,951
Rail pension & supplemental annuity	2,791	2,891	3,057	3,175	3,276	3,377	3,474	3,570	3,667	3,764	3,862	4,131
Total, Employment and general retirement ...	887,445	956,951	994,961	1,066,105	1,118,174	1,181,877	1,244,086	1,299,688	1,371,212	1,439,799	1,504,098	1,573,819
On-budget	(214,171)	(224,619)	(237,084)	(254,614)	(268,338)	(284,100)	(298,995)	(312,316)	(329,330)	(345,790)	(361,383)	(378,773)
Off-budget	(673,274)	(732,332)	(757,877)	(811,491)	(849,836)	(897,777)	(945,091)	(987,372)	(1,041,882)	(1,094,009)	(1,142,715)	(1,195,046)
Unemployment insurance:												
Deposits by States ¹	48,952	52,064	50,154	49,488	49,219	47,696	47,846	48,671	49,439	51,602	52,818	54,553
Legislative proposal, not subject to PAYGO				–1	–5	–16	–34	–48	–62	–75	–85	–146
Legislative proposal, subject to PAYGO			7	191	13,130	13,463	9,252	10,377	10,111	8,695	9,506	7,909
Federal unemployment receipts ¹	7,748	8,293	8,701	9,534	8,238	5,717	5,818	6,906	6,006	6,099	6,196	6,292
Legislative proposal, subject to PAYGO			–2,014	–2,231	477	2,032	1,482	768	2,042	2,327	2,647	2,981
Railroad unemployment receipts ¹	111	36	75	134	152	125	92	104	136	146	129	118
Total, Unemployment insurance	56,811	60,393	56,923	57,115	71,211	69,017	64,456	66,778	67,672	68,794	71,211	71,707
Other retirement:												
Federal employees retirement-employee share	3,538	3,740	3,837	4,029	4,402	4,757	5,162	5,628	6,168	6,793	7,248	8,361
Non-Federal employees retirement ²	26	25	23	22	21	20	19	18	16	15	15	13
Total, Other retirement	3,564	3,765	3,860	4,051	4,423	4,777	5,181	5,646	6,184	6,808	7,263	8,374
Total, Social insurance and retirement receipts (trust funds)	947,820	1,021,109	1,055,744	1,127,271	1,193,808	1,255,671	1,313,723	1,372,112	1,445,068	1,515,401	1,582,572	1,653,900
On-budget	(274,546)	(288,777)	(297,867)	(315,780)	(343,972)	(357,894)	(368,632)	(384,740)	(403,186)	(421,392)	(439,857)	(458,854)

Table 12–5. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Off-budget	(673,274)	(732,332)	(757,877)	(811,491)	(849,836)	(897,777)	(945,091)	(987,372)	(1,041,882)	(1,094,009)	(1,142,715)	(1,195,046)
Excise taxes:												
Federal funds:												
Alcohol	9,253	9,919	9,948	9,985	10,028	10,202	10,428	10,660	10,903	11,153	11,412	11,668
Tobacco	15,083	15,710	15,222	14,992	14,890	14,772	14,729	14,590	14,471	14,036	13,895	13,840
Legislative proposal, subject to PAYGO			10,396	13,248	12,468	11,651	10,937	10,294	9,689	9,120	8,585	7,903
Transportation fuels	-2,681	-1,649	-858	-879	-901	-911	-941	-959	-961	-964	-961	-960
Telephone and teletype services	733	646	558	476	402	338	284	237	197	163	135	110
Legislative proposal, subject to PAYGO			-558	-476	-402	-338	-284	-237	-197	-163	-135	-110
High-cost health insurance coverage						1,712	6,210	8,286	11,499	15,387	19,961	25,177
Health insurance providers		6,400	10,640	11,300	13,380	14,220	14,966	15,867	16,806	17,756	18,770	19,837
Indoor tanning services	92	97	103	109	115	121	126	131	136	142	147	152
Medical devices	1,343	2,098	2,179	2,257	2,357	2,482	2,621	2,781	2,945	3,127	3,321	3,523
Other Federal fund excise taxes	4,507	2,526	2,459	2,469	2,529	2,601	2,686	2,772	2,858	2,952	3,045	3,127
Legislative proposal, subject to PAYGO			6	8	14	16	18	20	21	21	21	21
Total, Federal funds	28,330	35,747	50,095	53,489	54,880	56,866	61,780	64,442	68,367	72,730	78,196	84,288
Trust funds:												
Transportation	36,462	37,936	38,215	38,673	39,193	39,572	40,029	40,623	40,850	41,016	41,034	41,352
Legislative proposal, subject to PAYGO			-2	-3	-3	-3	-3	-3	-3	-3	-3	-3
Airport and airway	12,854	13,347	13,814	14,407	14,926	15,426	15,887	16,368	16,882	17,388	17,936	18,512
Legislative proposal, subject to PAYGO			967	1,008	1,050	1,089	1,124	1,159	1,193	1,227	1,262	1,298
Sport fish restoration and boating safety	539	554	572	593	620	649	679	712	741	770	802	831
Tobacco assessments	947	1,065	960	960	960	960	960	960	960	960	960	960
Black lung disability insurance	531	562	572	547	550	570	362	275	279	286	293	296
Inland waterway	75	88	91	94	97	100	101	104	106	109	111	114
Legislative proposal, subject to PAYGO			2	2	2	2	2	2	2	2	2	2
Hazardous substance superfund (Legislative proposal, subject to PAYGO)			845	1,137	1,150	1,159	1,171	1,184	1,194	1,204	1,215	1,223
Oil spill liability	410	495	500	502	546	553	552	549	546	544	540	536
Legislative proposal, subject to PAYGO			81	110	116	123	125	132	137	143	149	153
Vaccine injury compensation	204	249	256	264	270	277	283	291	298	305	315	324
Leaking underground storage tank	162	178	179	180	181	182	182	184	182	183	182	182
Supplementary medical insurance	3,216	2,960	3,000	3,000	3,920	4,092	2,904	2,800	2,800	2,800	2,800	2,800
Patient-centered outcomes research	277	347	392	420	448	479	513	546	579	614	652	693
Total, Trust funds	55,677	57,781	60,444	61,894	64,026	65,230	64,871	65,886	66,746	67,548	68,250	69,273
Total, Excise taxes	84,007	93,528	110,539	115,383	118,906	122,096	126,651	130,328	135,113	140,278	146,446	153,561
Estate and gift taxes:												
Federal funds	18,912	15,746	17,526	19,020	20,434	21,860	23,169	24,440	26,006	27,499	29,179	31,013
Legislative proposal, subject to PAYGO				577	759	949	16,200	17,871	19,784	21,791	24,093	25,666
Total, Estate and gift taxes	18,912	15,746	17,526	19,597	21,193	22,809	39,369	42,311	45,790	49,290	53,272	56,679
Customs duties and fees:												
Federal funds:												
Federal funds	30,216	33,813	36,161	39,046	42,331	45,606	48,731	51,882	55,216	58,650	62,313	66,616
Legislative proposal, subject to PAYGO		-496	-928	-215								
Total, Federal funds	30,216	33,317	35,233	38,831	42,331	45,606	48,731	51,882	55,216	58,650	62,313	66,616
Trust funds:												
Trust funds	1,599	1,649	1,732	1,846	1,968	2,090	2,203	2,329	2,466	2,606	2,750	2,904
Total, Customs duties and fees	31,815	34,966	36,965	40,677	44,299	47,696	50,934	54,211	57,682	61,256	65,063	69,520

Table 12–5. RECEIPTS BY SOURCE—Continued
(In millions of dollars)

Source	2013 Actual	Estimate										
		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Miscellaneous receipts:												
Federal funds:												
Miscellaneous taxes	663	504	503	503	503	503	504	504	504	504	504	505
Deposit of earnings, Federal Reserve System	75,767	90,422	88,292	58,097	33,774	20,069	24,942	34,181	43,496	46,896	53,906	58,336
Transfers from the Federal Reserve	518	534	583	604	626	650	661	672	683	696	707	719
Fees for permits and regulatory and judicial services	13,530	13,704	29,331	27,740	28,030	24,943	27,440	28,970	28,218	27,886	27,691	28,668
Legislative proposal, subject to PAYGO			266	580	591	601	611	620	629	583	592	601
Fines, penalties, and forfeitures	9,600	10,330	10,391	14,009	30,353	33,523	32,548	33,961	35,650	37,530	39,518	41,741
Legislative proposal, subject to PAYGO				1	1	6	4	3	2	2	2	2
Refunds and recoveries	-33	-44	-42	-42	-42	-42	-42	-42	-42	-42	-42	-42
Total, Federal funds	100,045	115,450	129,324	101,492	93,836	80,253	86,668	98,869	109,140	114,055	122,878	130,530
Trust funds:												
United Mine Workers of America, combined benefit fund	33	30	27	25	23	27	20	15	13	12	11	10
Defense cooperation	297	127	297	396	359	573	597	608	275	133	136	139
Inland waterways (Legislative proposal, subject to PAYGO)			80	111	111	111	111	111	111	111	111	112
Fines, penalties, and forfeitures	2,263	1,957	1,961	1,549	1,590	1,678	1,537	1,581	1,627	1,674	1,723	1,774
Total, Trust funds	2,593	2,114	2,365	2,081	2,083	2,389	2,265	2,315	2,026	1,930	1,981	2,035
Total, Miscellaneous receipts	102,638	117,564	131,689	103,573	95,919	82,642	88,933	101,184	111,166	115,985	124,859	132,565
Allowance for immigration reform			2,000	12,000	28,000	39,000	45,000	47,000	55,000	64,000	77,000	87,000
Total, budget receipts	2,775,103	3,001,721	3,337,425	3,567,952	3,810,779	4,029,856	4,226,119	4,452,278	4,705,729	4,954,286	5,212,085	5,478,190
On-budget	(2,101,829)	(2,269,389)	(2,579,548)	(2,756,461)	(2,960,943)	(3,132,079)	(3,281,028)	(3,464,906)	(3,663,847)	(3,860,277)	(4,069,370)	(4,283,144)
Off-budget	(673,274)	(732,332)	(757,877)	(811,491)	(849,836)	(897,777)	(945,091)	(987,372)	(1,041,882)	(1,094,009)	(1,142,715)	(1,195,046)

¹ Deposits by States cover the benefit part of the program. Federal unemployment receipts cover administrative costs at both the Federal and State levels. Railroad unemployment receipts cover both the benefits and administrative costs of the program for the railroads.

² Represents employer and employee contributions to the civil service retirement and disability fund for covered employees of Government-sponsored, privately owned enterprises and the District of Columbia municipal government.

13. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS

I. INTRODUCTION AND BACKGROUND

The Government records money collected in one of two ways. It is either recorded as a governmental receipt and included in the amount reported on the receipts side of the budget or it is recorded as an offsetting collection or offsetting receipt, which reduces (or “offsets”) the amount reported on the outlay side of the budget. Governmental receipts are discussed in the previous chapter, “Governmental Receipts.” The first section of this chapter broadly discusses offsetting collections and offsetting receipts. The second section discusses user charges, which consist of a subset of offsetting collections and offsetting receipts and a small share of governmental receipts. The third and final section of this chapter describes the Administration’s user charge proposals.

As discussed below, offsetting collections and offsetting receipts are cash inflows to a budget account that are used to finance Government activities. The spending associated with these activities is included in total or “gross outlays.” For 2013, gross outlays to the public were \$4,076 billion,¹ or 24.5 percent of gross domestic product (GDP). Offsetting collections and offsetting receipts from the public are subtracted from gross outlays to the public to yield “net outlays,” which is the most common measure of outlays cited and generally referred to as simply “outlays.” For 2013, net outlays were \$3,455 billion or 20.8 percent of GDP. Government-wide net outlays reflect the Government’s net disbursements to the public and are subtracted from governmental receipts to derive the Government’s deficit or surplus. For 2013, governmental receipts were \$2,775 billion or 16.7 percent of GDP and the deficit was \$680 billion, or 4.1 percent of GDP.

There are two sources of offsetting receipts and offsetting collections: from the public and from other budget accounts. In 2013, offsetting receipts and offsetting collections from the public were \$622 billion, while intragovernmental offsetting receipts and offsetting collections were \$1,041 billion. Regardless of how it is recorded (as governmental receipts, offsetting receipts, or offsetting collections), money collected from the public reduces the deficit or increases the surplus. In contrast, intragovernmental collections from other budget accounts exactly offset the payments, with no net impact on the deficit or surplus (see Table 13-1).²

¹ Gross outlays to the public are derived by subtracting intragovernmental outlays from gross outlays. For 2013, gross outlays were \$5,118 billion. Intragovernmental outlays are payments from one Government account to another Government account. For 2013, intragovernmental outlays totaled \$1,041 billion.

² For the purposes of this discussion, “collections from the public” include collections from non-budgetary Government accounts, such as credit financing accounts and deposit funds. For more information on these non-budgetary accounts, see Chapter 10, “Coverage of the Budget.”

When measured by the magnitude of the dollars collected, most offsetting collections and offsetting receipts from the public arise from business-like transactions with the public. Unlike governmental receipts, which are derived from the Government’s exercise of its sovereign power, these offsetting collections and offsetting receipts arise primarily from voluntary payments from the public for goods or services provided by the Government. They are classified as offsets to outlays for the cost of producing the goods or services for sale, rather than as governmental receipts on the receipts side of the budget. Treating offsetting collections and offsetting receipts as offsets to outlays produces budget totals for receipts, (net) outlays, and budget authority that reflect the amount of resources allocated by the Government through collective political choice, rather than through the marketplace.³ These activities include the sale of postage stamps, land, timber, and electricity, and services provided to the public (e.g., admission to national parks); and premiums for health care benefits (e.g., Medicare Parts B and D).

A relatively small portion (\$8.8 billion in 2013) of offsetting collections and offsetting receipts from the public is derived from the Government’s exercise of its sovereign power. From a conceptual standpoint, these should be classified as governmental receipts. However, they are classified as offsetting rather than governmental receipts either because this classification has been specified in law or because these collections have traditionally been classified as offsets to outlays.⁴ Most of the offsetting collections and offsetting receipts in this category derive from fees from Government regulatory services or Government licenses, and include, for example, charges for regulating the nuclear energy industry, bankruptcy filing fees, immigration fees, food inspection fees, passport fees, and patent and trademark fees.

A third source of offsetting collections and offsetting receipts is intragovernmental transfers. Examples of intragovernmental transfers include interest payments to

³ Showing collections from business-type transactions as offsets on the spending side of the budget follows the concept recommended by the Report of the President’s Commission on Budget Concepts in 1967 and is discussed in Chapter 9 of this volume, “Budget Concepts.”

⁴ Offsetting governmental receipts, which are a subset of offsetting receipts, result from the Government’s exercise of its sovereign power to tax, but by law or tradition are required to be subtracted from outlays rather than added to governmental receipts. Some argue that regulatory or licensing fees should be viewed as payments for a particular service or for the right to engage in a particular type of business. However, these fees are conceptually much more similar to taxes because they are compulsory, and they fund activities that are intended to provide broadly dispersed benefits, such as protecting the health of the public. Reclassifying these fees as governmental receipts could require a change in law, and because of conventions for scoring appropriations bills, would make it impossible for fees that are controlled through annual appropriations acts to be scored as offsets to discretionary spending.

Table 13–1. OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC
(In billions of dollars)

	Actual 2013	Estimate	
		2014	2015
Offsetting collections (credited to expenditure accounts):			
User charges:			
Postal Service stamps and other USPS fees (off-budget)	72.4	67.2	66.8
Defense Commissary Agency	5.9	6.2	6.1
Employee contributions for employees and retired employees health benefits funds	13.4	13.8	14.3
Sale of energy:			
Tennessee Valley Authority	65.1	64.3	64.6
Bonneville Power Administration	3.7	4.0	4.0
All other user charges	67.3	67.0	80.8
Subtotal, user charges	227.8	222.6	236.7
Other collections credited to expenditure accounts:			
Commodity Credit Corporation fund	6.7	6.1	7.0
Supplemental Security Income (collections from the States)	3.3	3.3	3.4
Other collections	17.4	9.8	7.5
Subtotal, other collections	27.5	19.3	17.9
Subtotal, offsetting collections	255.3	241.8	254.6
Offsetting receipts (deposited in receipt accounts):			
User charges:			
Medicare premiums	68.9	72.9	75.5
Outer Continental Shelf rents, bonuses, and royalties	8.9	8.2	8.0
All other user charges	30.4	30.6	35.3
Subtotal, user charges deposited in receipt accounts	108.2	111.6	118.8
Other collections deposited in receipt accounts:			
Military assistance program sales	26.7	31.6	30.5
Interest received from credit financing accounts	35.0	51.5	54.6
Proceeds, GSE equity related transactions	95.7	68.8	19.0
All other collections deposited in receipt accounts	101.0	84.5	43.6
Subtotal, other collections deposited in receipt accounts	258.4	236.4	147.6
Subtotal, offsetting receipts	366.6	348.0	266.4
Total, offsetting collections and offsetting receipts from the public	621.8	589.8	521.0
Total, offsetting collections and offsetting receipts excluding off-budget	549.2	522.5	454.1
ADDENDUM:			
User charges that are offsetting collections and offsetting receipts ¹	336.0	334.2	355.5
Other offsetting collections and offsetting receipts from the public	285.8	255.6	165.5

¹ Excludes user charges that are classified on the receipts side of the budget. For total user charges, see Table 13-3.

funds that hold Government securities (such as the Social Security trust funds), general fund transfers to civilian and military retirement pension and health benefits funds, and agency payments to funds for employee health insurance and retirement benefits. Although these intragovernmental collections exactly offset the payments themselves, with no effect on the deficit or surplus, it is important to record these transactions in the budget to show how much the Government is allocating to fund various programs. For example, in the case of civilian retirement pensions, Government agencies make accrual payments to the Civil Service Retirement and Disability Fund on behalf of current employees to fund their future retirement benefits; the receipt of these payments to the Fund is shown in a single receipt account. Recording the receipt of these payments is important because it demon-

strates the total cost to the Government today of providing this future benefit.

The final source of offsetting collections and offsetting receipts is gifts. Gifts are voluntary contributions to the Government to support particular purposes or reduce the amount of Government debt held by the public.

Although both offsetting collections and offsetting receipts are subtracted from gross outlays to derive net outlays, they are treated differently when it comes to accounting for specific programs and agencies. Offsetting collections are usually authorized to be spent for the purposes of an expenditure account and are generally available for use when collected, without further action by the Congress. Therefore, offsetting collections are recorded as offsets to spending within expenditure accounts, so that the account total highlights the net flow of funds.

Table 13–2. OFFSETTING RECEIPTS BY TYPE SUMMARY
(In millions of dollars)

Receipt Type	2013 Actual	Estimate					
		2014	2015	2016	2017	2018	2019
Intragovernmental	704,655	704,855	735,380	752,445	771,536	802,461	812,418
Receipts from non-Federal sources:							
Proprietary	357,714	337,553	251,575	257,925	265,554	278,827	288,930
Offsetting governmental	8,842	10,429	14,872	16,926	22,722	19,584	15,744
Total, receipts from non-Federal sources	366,556	347,982	266,447	274,851	288,276	298,411	304,674
Total Offsetting receipts	1,071,211	1,052,837	1,001,827	1,027,296	1,059,812	1,100,872	1,117,092

Like governmental receipts, offsetting receipts are credited to receipt accounts, and any spending of the receipts is recorded in separate expenditure accounts. As a result, the budget separately displays the flow of funds into and out of the Government. Offsetting receipts may or may not be designated for a specific purpose, depending on the legislation that authorizes their collection. If designated for a particular purpose, the offsetting receipts may, in some cases, be spent without further action by the Congress. When not designated for a particular purpose, offsetting receipts are credited to the general fund, which contains all funds not otherwise allocated and which is used to finance Government spending that is not financed out of dedicated funds. In some cases where the receipts are designated for a particular purpose, offsetting receipts are reported in a particular agency and reduce or offset the outlays reported for that agency. In other cases, the offsetting receipts are “undistributed,” which means they reduce total Government outlays, but not the outlays of any particular agency.

Table 13–1 summarizes offsetting collections and offsetting receipts from the public. Note that this table does not include intragovernmental transactions. The amounts shown in the table are not evident in the commonly cited budget measure of (net) outlays. For 2015, the table shows that total offsetting collections and offsetting receipts from the public are estimated to be \$521.0 billion or 2.9 percent of GDP. Of these, an estimated \$254.6 billion are offsetting collections and an estimated \$266.4 billion are offsetting receipts. Table 13–1 also identifies those offsetting collections and offsetting receipts that are considered user charges, as defined and discussed below.

As shown in the table, major offsetting collections from the public include proceeds from Postal Service sales, electrical power sales, loan repayments to the Commodity Credit Corporation for loans made prior to enactment of the Federal Credit Reform Act, and Federal employee payments for health insurance. As also shown in the table, major offsetting receipts from the public include Medicare Part B premiums, proceeds from military assistance program sales, rents and royalties from Outer Continental Shelf oil extraction, and interest income.

Tables 13–2 and 13-5 provide further detail about offsetting receipts, including both offsetting receipts from the public (as summarized in Table 13–1) and intragovernmental transactions. Table 13-5, formerly printed in this chapter, is available on the Internet at www.budget.gov/budget/Analytical_Perspectives and on the Budget CD-ROM. In total, offsetting receipts are estimated to be \$1,001.8 billion in 2015; \$735.4 billion are from intragovernmental transactions and \$266.4 billion are from the public. The offsetting receipts from the public consist of proprietary receipts (\$251.6 billion) and those classified as offsetting receipts by law or long-standing practice (\$14.9 billion) and shown as offsetting governmental receipts in the table. Proprietary receipts from the public result from business-like transactions such as the sale of goods or services, or the rental or use of Government land. Offsetting governmental receipts are composed of fees from Government regulatory services or Government licenses that, absent a specification in law or a long-standing practice, would be classified on the receipts side of the budget.

II. USER CHARGES

User charges or user fees⁵ refer generally to those monies that the Government receives from the public for market-oriented activities and regulatory activities. In combination with budget concepts, laws that authorize

user charges determine whether a user charge is classified as an offsetting collection, an offsetting receipt, or a governmental receipt. Almost all user charges, as defined below, are classified as offsetting collections or offsetting receipts; for 2015, only an estimated 1.3 percent of user charges are classified as governmental receipts. As summarized in Table 13-3, total user charges for 2015 are estimated to be \$360.3 billion with \$355.5 billion being offsetting collections or offsetting receipts, and accounting for more than half of all offsetting collections and offsetting receipts from the public.

⁵ In this chapter, the term “user charge” is generally used and has the same meaning as the term “user fee.” The term “user charge” is the one used in OMB Circular No. A–11, “Preparation, Submission, and Execution of the Budget;” OMB Circular No. A–25, “User Charges;” and Chapter 9 of this volume, “Budget Concepts.” In common usage, the terms “user charge” and “user fee” are often used interchangeably; and in A Glossary of Terms Used in the Federal Budget Process, GAO provides the same definition for both terms.

Definition. In this chapter, user charges refer to fees, charges, and assessments levied on individuals or organizations directly benefiting from or subject to regulation by a Government program or activity, where the payers do not represent a broad segment of the public such as those who pay income taxes.

Examples of business-type or market-oriented user charges and regulatory and licensing user charges include those charges listed in Table 13-1 for offsetting collections and offsetting receipts. User charges exclude certain offsetting collections and offsetting receipts from the public, such as payments received from credit programs, interest, and dividends, and also exclude payments from one part of the Federal Government to another. In addition, user charges do not include dedicated taxes (such as taxes paid to social insurance programs or excise taxes on gasoline) or customs duties, fines, penalties, or forfeitures.

Alternative definitions. The definition for user charges used in this chapter follows the definition used in OMB Circular No. A-25, "User Charges," which provides policy guidance to Executive Branch agencies on setting the amount for user charges. Alternative definitions may be used for other purposes. Much of the discussion of user charges below – their purpose, when they should be levied, and how the amount should be set – applies to these alternative definitions as well.

A narrower definition of user charges could be limited to proceeds from the sale of goods and services, excluding the proceeds from the sale of assets, and to proceeds that are dedicated to financing the goods and services being provided. This definition is similar to one the House of Representatives uses as a guide for purposes of committee jurisdiction. (See the *Congressional Record*, January 3, 1991, p. H31, item 8.) The definition of user charges could be even narrower by excluding regulatory fees and focusing solely on business-type transactions. Alternatively, the user charge definition could be broader than the one used in this chapter by including beneficiary- or liability-based excise taxes.⁶

⁶ Beneficiary- and liability-based taxes are terms taken from the Congressional Budget Office, *The Growth of Federal User Charges*, August 1993, and updated in October 1995. Gasoline taxes are an example of beneficiary-based taxes. An example of a liability-based tax is the excise tax that formerly helped fund the hazardous substance superfund in the Environmental Protection Agency. This tax was paid by industry

What is the purpose of user charges? User charges are intended to improve the efficiency and equity of financing certain Government activities. Charging users for activities that benefit a relatively limited number of people and charging for regulatory activities reduces the burden on the general taxpayer.

User charges that are set to cover the costs of production of goods and services can result in more efficient resource allocation within the economy. When buyers are charged the cost of providing goods and services, they make better cost-benefit calculations regarding the size of their purchase, which in turn signals to the Government how much of the goods or services it should provide. Prices in private, competitive markets serve the same purposes. User charges for goods and services that do not have special social or distributional benefits may also improve equity or fairness by requiring those who benefit from an activity to pay for it and by not requiring those who do not benefit from an activity to pay for it.

When should the Government impose a charge? Discussions of whether to finance spending with a tax or a fee often focus on whether the benefits of the activity accrue to the public in general or to a limited group of people. In general, if the benefits of spending accrue broadly to the public or include special social or distributional benefits, then the program should be financed by taxes paid by the public. In contrast, if the benefits accrue to a limited number of private individuals or organizations and do not include special social or distributional benefits, then the program should be financed by charges paid by the private beneficiaries. For Federal programs where the benefits are entirely public or entirely private, applying this principle can be relatively easy. For example, the benefits from national defense accrue to the public in general, and according to this principle should be (and are) financed by taxes. In contrast, the benefits of electricity sold by the Tennessee Valley Authority accrue primarily to those using the electricity, and should be (and are) financed by user charges.

In many cases, however, an activity has benefits that accrue to both public and private groups, and it may be difficult to identify how much of the benefits accrue to

groups to finance environmental cleanup activities related to the industry activity but not necessarily caused by the payer of the fee.

Table 13-3. GROSS OUTLAYS, USER CHARGES, OTHER OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS FROM THE PUBLIC, AND NET OUTLAYS

(In billions of dollars)

	Actual 2013	Estimate	
		2014	2015
Gross outlays to the public	4,076.4	4,240.3	4,422.0
Offsetting collections and offsetting receipts from the public:			
User charges ¹	336.0	334.2	355.5
Other	285.8	255.6	165.5
Subtotal, offsetting collections and offsetting receipts from the public	621.8	589.8	521.0
Net outlays	3,454.6	3,650.5	3,901.0

¹ \$4.1 billion of the total user charges for 2013 were classified as governmental receipts, and the remainder were classified as offsetting collections and offsetting receipts. \$4.2 billion and \$4.8 billion of the total user charges for 2014 and 2015 are classified as governmental receipts, respectively.

each. Because of this, it can be difficult to know how much of the program should be financed by taxes and how much by fees. For example, the benefits from recreation areas are mixed. Fees for visitors to these areas are appropriate because the visitors benefit directly from their visit, but the public in general also benefits because these areas protect the Nation's natural and historic heritage now and for posterity. For this reason, visitor recreation fees generally cover only part of the cost to the Government of maintaining the recreation property. Where a fee may be appropriate to finance all or part of an activity, the extent to which a fee can be easily administered must be considered. For example, if fees are charged for entering or using Government-owned land then there must be clear points of entry onto the land and attendants patrolling and monitoring the land's use.

What amount should be charged? When the Government is acting in its capacity as sovereign and where user charges are appropriate, such as for some regulatory activities, current policy supports setting fees equal to the full cost to the Government, including both direct and indirect costs. When the Government is not acting in its capacity as sovereign and engages in a purely business-type transaction (such as leasing or selling goods, services, or resources), market price is generally the basis for establishing the fee.⁷ If the Government is

⁷ Policies for setting user charges are promulgated in OMB Circular No. A-25: "User Charges" (July 8, 1993).

engaged in a purely business-type transaction and economic resources are allocated efficiently, then this market price should be equal to or greater than the Government's full cost of production.

Classification of user charges in the budget. As shown in the note to Table 13-3, most user charges are classified as offsets to outlays on the spending side of the budget, but a few are classified on the receipts side of the budget. An estimated \$4.8 billion in 2015 of user charges are classified on the receipts side and are included in the governmental receipts totals described in the previous chapter, "Governmental Receipts." They are classified as receipts because they are regulatory charges collected by the Federal Government by the exercise of its sovereign powers. Examples include filing fees in the United States courts and agricultural quarantine inspection fees.

The remaining user charges, an estimated \$355.5 billion in 2015, are classified as offsetting collections and offsetting receipts on the spending side of the budget. As discussed above in the context of all offsetting collections and offsetting receipts, some of these user charges are collected by the Federal Government by the exercise of its sovereign powers and conceptually should appear on the receipts side of the budget, but they are required by law or a long-standing practice to be classified on the spending side.

III. USER CHARGE PROPOSALS

As shown in Table 13-1, an estimated \$236.7 billion of user charges for 2015 will be credited directly to expenditure accounts and will generally be available for expenditure when they are collected, without further action by the Congress. An estimated \$118.8 billion of user charges for 2015 will be deposited in offsetting receipt accounts and will be available to be spent only according to the legislation that established the charges.

As shown in Table 13-4, the Administration is proposing new or increased user charges that would, in the aggregate, increase collections by an estimated \$3.1 billion in 2015 and an average of \$13.7 billion per year from 2016-24. These estimates reflect only the amounts to be collected; they do not include related spending. Each proposal is classified as either discretionary or mandatory, as those terms are defined in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. "Discretionary" refers to user charges controlled through annual appropriations acts and generally under the jurisdiction of the appropriations committees in the Congress. "Mandatory" refers to user charges controlled by permanent laws and under the jurisdiction of the authorizing committees. These and other terms are discussed further in this volume in Chapter 9, "Budget Concepts."

A. Discretionary User Charge Proposals

1. Offsetting collections

Department of Agriculture

Forest Service: Grazing administrative processing fee. The Budget proposes, beginning on March 1, 2015, and in each subsequent year through February 28, 2019, to recover some of the costs of issuing grazing permits and leases on Forest Service lands. The Forest Service would charge a fee of \$1 per head month for cattle and its equivalent for other livestock, which would be collected along with current grazing fees. The fee would allow the Forest Service to more expeditiously address pending applications for grazing permit renewals and perform other necessary grazing activities.

Rural Utilities Service: Infrastructure permitting fee. The Administration proposes to collect new fees from loan applicants for electric transmission infrastructure projects to cover costs incurred by the agency for participation in public engagement activities, tribal and state consultation, and interagency meetings required to meet environmental review requirements. Annual collections are estimated to be \$105,000.

Rural Housing Service: Guaranteed Underwriting System (GUS) fee. The 2015 Budget includes a proposal that would require a \$50 per loan guaranteed underwriting fee for lenders who participate in the section 502 single family housing loan guarantee program, which would

become a dedicated funding source to offset the cost of systems upgrades and maintenance for the GUS.

Department of Commerce

National Oceanic and Atmospheric Administration (NOAA): Infrastructure permitting fee. The budget includes a proposal to allow NOAA to collect user fees from private entities for activities related to regulatory permitting. This authority would allow NOAA to expedite studies and data collection supporting decision-making in collaboration with private entities seeking regulatory permits. Annual collections are estimated to be \$100,000.

Department of Health and Human Services

Food and Drug Administration (FDA): Food facilities registration, inspection, and import fees. The Budget includes a proposed fee to finance activities that support the safety and security of America's food supply and help meet the requirements of the FDA Food Safety Modernization Act.

FDA: International courier fees. The volume of imports, predominantly medical products, being brought into the United States by international couriers is growing substantially. To ensure the safety of these FDA-regulated products through increased surveillance efforts, the Budget includes a new charge to international couriers.

FDA: Cosmetic facility registration fees. FDA promotes the safety of cosmetics and other health and beauty products. The Budget includes a new facility registration fee for cosmetic and other health and beauty product facilities that will improve FDA's capacity to promote greater safety and understanding of these products.

FDA: Food contact substances notification fee. Food contact substances include components of food packaging and food processing equipment that come in contact with food. This new fee will allow FDA to promote greater safety and understanding of the products that come into contact with food when used.

Health Resources and Services Administration: 340B Pharmacy Affairs fee. To improve the administration and oversight of the 340B Drug Discount Program, the Budget includes a new charge to those entities participating in the program.

Department of Homeland Security

Transportation Security Administration (TSA): Aviation passenger security fee increase. Since 2001 the aviation passenger security fee has been limited to \$2.50 per passenger enplanement with a maximum fee of \$5.00 per one-way trip pursuant to the Aviation and Transportation Security Act. Pursuant to the Bipartisan Budget Act of 2013 (BBA), starting in July 2014, this fee will be restructured into a single per-trip charge and increased to \$5.60 per one-way trip. Over the next 10 years, this restructured fee is projected to provide \$4.3 billion in additional discretionary offsetting collections and \$12.6 billion for deficit reduction.

The 2015 Budget proposes an authority to increase the \$5.60 fee established by the BBA to \$6.00 for fiscal year 2015, which will generate \$195 million in additional

discretionary offsetting collections. Under this proposal, discretionary collections from the passenger fee would cover approximately 39 percent of the costs of TSA aviation security programs. The 2015 Budget also proposes to authorize TSA to increase the aviation passenger security fee annually by 50 cents from fiscal years 2016 to 2018, resulting in a fee of \$7.50 in 2018, capturing 44 percent of the costs of aviation security in 2018 and 62 percent by 2024. This proposal would increase receipts by an estimated \$11.3 billion between fiscal years 2016 to 2024. Of that amount, \$5.9 billion will be categorized as discretionary offsetting collections to pay for the costs of aviation security while the remaining \$5.4 billion will be deposited in the general fund to help offset the cost of the proposed Opportunity, Growth, and Security Initiative.

TSA: Aviation security infrastructure fee. Since the establishment of TSA, air carriers have paid a fee reflecting the aviation industry's share of the costs for screening passengers and property as well as providing other aviation security services. This fee, known as the Aviation Security Infrastructure Fee, was authorized in 2001 by the Aviation and Transportation Security Act and will total \$420 million in 2014. The Bipartisan Budget Act of 2013 repealed the Aviation Security Infrastructure Fee, effective October 1, 2014. Such a repeal would cause offsetting collections to decrease by \$4.2 billion over ten years. The 2015 Budget proposes that TSA continue to collect the Aviation Security Infrastructure Fee in fiscal year 2015. The 2015 Budget also proposes to authorize TSA to collect the Aviation Security Infrastructure Fee permanently in the future while providing a mechanism for the agency to more equitably apportion the collection of \$420 million among air carriers on the basis of current market share.

Department of Housing and Urban Development

Federal Housing Administration (FHA): Administrative support fee. The Budget requests authority to charge lenders using FHA mortgage insurance an administrative support fee, which would generate an estimated \$30 million annually in offsetting collections. These additional collections will offset the cost of enhancements to administrative contract support and FHA staffing, with a focus on increasing the number of loans reviewed annually for quality assurance.

Department of the Interior

Bureau of Land Management (BLM): Public lands oil and gas lease inspection fees. The Budget proposes new inspection fees for oil and gas facilities that are subject to inspection by BLM. The fees would be based on the number of oil and gas wells per facility, providing for costs to be shared equitably across the industry. According to agency data, BLM currently spends more than \$40 million on managing the compliance inspection program. Inspection costs include, among other things, the salaries and travel expenses of inspectors. In 2015, the Budget proposes a \$10 million increase in funding to strengthen the BLM inspections and enforcement program, with these costs to be offset by higher fees on industry users. In addition, in

2015, the Budget proposes to charge industry users fees to offset \$38 million in existing inspection and enforcement program costs, resulting in a \$38 million reduction in general fund appropriations for BLM. The proposed fees will generate approximately \$48 million in 2015, thereby requiring energy developers on Federal lands to fund the majority of compliance costs incurred by BLM.

BLM: Grazing administrative processing fee. The Budget proposes a three-year pilot project to allow BLM to recover some of the costs of issuing grazing permits and leases on BLM lands. BLM would charge a fee of \$1 per Animal Unit Month, which would be collected along with current grazing fees. The fee would allow BLM to address pending applications for grazing permit renewals more expeditiously. BLM would promulgate regulations for the continuation of the grazing administrative fee as a cost recovery fee after the pilot expires.

Fish and Wildlife Service (FWS): Non-toxic shot review and approval fees. The Migratory Bird Treaty Act of 1918, as amended, authorized the Secretary of the Interior to regulate the take of migratory birds. As part of that responsibility, FWS currently approves non-toxic shot under 50 CFR 10.134. The Budget proposes to allow for the spending of a new fee for the review of non-toxic shot that FWS recently established pursuant to regulation at 50 CFR Part 20. The new fee is \$20,000 per application, and will be collected pursuant to the general fee authority found in 31 U.S.C. 9701. No fees have yet been collected, but the anticipated fee collection over 10 years is less than \$400,000.

Department of Justice

Antitrust Division: Increase Hart-Scott-Rodino fees. The Federal Trade Commission and the Department of Justice Antitrust Division are responsible for reviewing corporate mergers to ensure they do not promote anticompetitive practices. Revenues collected from pre-merger filing fees, known as Hart-Scott-Rodino (HSR) fees, are split evenly between the two agencies. The Budget proposes to increase the HSR fees and index them to the annual change in the gross national product. The fee proposal would also create a new merger fee category for mergers valued at over \$1 billion. Under the proposal, the fee increase would take effect in 2016, and it is estimated that annual HSR fees would total \$340 million (\$170 million for each of Federal Trade Commission and DOJ Antitrust Division), an increase of \$126 million per year (\$63 million for each of Federal Trade Commission and DOJ Antitrust Division).

Department of Labor

Mine Safety and Health Administration (MSHA): Rock dust analysis fee. MSHA conducts rock dust sampling and analyses to determine whether mines are in compliance with regulations intended to prevent the build-up of combustible dust. The Administration proposes to establish a fee on mine operators to fund these activities.

Occupational Safety and Health Administration (OSHA): OSHA Training Institute fees. The OSHA Training Institute provides compliance and safety train-

ing for occupational health and safety professionals in State and Federal governments, and the private sector. The Administration proposes to increase the amount OSHA is authorized to retain for fees collected from course tuition and training fees from \$200,000 to \$499,000.

Department of State

Western Hemisphere Travel Initiative surcharge extension. The Administration proposes to extend the authority for the Department of State to collect the Western Hemisphere Travel Initiative surcharge for one year, through September 30, 2015. The surcharge was initially enacted by the Passport Services Enhancement Act of 2005 (P.L. 109–167) to cover the Department’s costs of meeting increased demand for passports, which resulted from the implementation of the Western Hemisphere Travel Initiative.

Border Crossing Card fee increase. The Budget includes a proposal to increase certain Border Crossing Card (BCC) fees. The proposal would allow the fee charged for BCC minor applicants to be set administratively rather than statutorily. Administrative fee setting will allow the fee charged BCC applicants to better reflect the associated cost of service, similar to other fees charged for consular services. The proposal would set the BCC fee for minors equal to one half the fee for adults by amending current law, which sets the fee at \$13. Annual BCC fee collections are projected to increase by \$17 million (from \$4 million to \$21 million) beginning in 2015 as a result of this change.

Department of Transportation (DOT)

Safe Transport of Oil fee. To respond to emerging concerns with the transport of crude oil by rail or truck, in addition to regulatory or other measures, the 2015 Budget establishes a new one-time appropriated fund to provide \$40 million in discretionary resources to support prevention and response activities associated with the safe transportation of crude oil. Because this effort is a partnership with industry, the Administration also proposes to give the Secretary of Transportation additional temporary authority from 2016 through 2020 to share costs with industry (i.e., charging fees) to offset costs associated with ensuring that these cargoes move safely.

Commodity Futures Trading Commission (CFTC)

CFTC fee. The Budget proposes an amendment to the Commodity Exchange Act, effective in 2016, authorizing the CFTC to collect fees from its regulated community equal to the agency’s annual appropriation. This will make CFTC funding more consistent with the funding mechanisms in place for other Federal financial regulators.

Consumer Product Safety Commission (CPSC)

Import surveillance user fee. The fee, effective in 2016, will support a new CPSC initiative to keep dangerous products out of the hands of U.S. consumers. CPSC will proactively detect and stop hazardous products that do not meet safety standards from entering U.S. ports, while expediting compliant trade. The program will use a risk-

based methodology as a cost-efficient means to target and inspect high risk imports.

Federal Maritime Commission (FMC)

Filing and service fees. The FMC is an independent federal agency responsible for regulating the U.S. international ocean transportation system for the benefit of U.S. exporters, importers and consumers. Fees are collected by FMC for filing ocean freight transportation intermediary license applications, service contracts, service agreements, and passenger vessel performance and casualty certificate applications; for filing petitions and complaints; for providing public information services, such as record searches and admissions to practice before the Commission in adjudications; and for other services. The Budget includes a proposal to permanently reclassify FMC fees from mandatory receipts that are currently being collected pursuant to the general fee authority found in 31 USC 9701 and deposited into the General Fund of the Treasury to discretionary offsetting collections triggered by appropriations language each year. The proposal allows the Commission to retain up to \$300,000 for necessary agency expenses to better align the Commission with the self-financing structure of other federal regulators.

Federal Trade Commission

Increase Hart-Scott-Rodino fees. See description under Department of Justice.

2. Offsetting receipts

Department of Homeland Security

Customs and Border Protection (CBP): COBRA and Express Consignment Courier Facilities fees. The Budget includes a proposal to increase COBRA fees (statutorily set under the Consolidated Omnibus Budget Reconciliation Act of 1985) and the Express Consignment Courier Facilities (ECCF) fee created under the Trade Act of 2002. COBRA created a series of user fees for air and sea passengers, commercial trucks, railroad cars, private aircraft and vessels, commercial vessels, dutiable mail packages, broker permits, barges and bulk carriers from Canada and Mexico, cruise vessel passengers, and ferry vessel passengers. This proposal would increase the customs inspection fee by \$2 and increase other COBRA fees by a proportional amount. The ECCF fee was created to reimburse CBP for inspection costs related to express consignment and the proposal would increase the fee by \$0.36. The additional revenue raised from these fee increases will allow CBP to recover more costs associated with customs related inspections, and reduce waiting times by supporting the hiring of 903 new CBP officers. Future budget requests will include an annual increase to these fees to adjust them for inflation.

CBP: Immigration inspection user fee (IUF) increase and lifting of IUF fee limitation. The Budget includes a proposal to increase the immigration inspection user fee by \$2. The current fees are \$7 for air and commercial vessel passengers and \$3 for partially exempted commer-

cial vessel passengers whose trips originate in Canada, Mexico, the U.S. Territories and adjacent Islands. This fee is paid by passengers and is used to recover some of the costs related to determining the admissibility of passengers entering the US. Specifically, the fees collected support immigration inspections, personnel, the maintenance and updating of systems to track criminal and illegal aliens in areas with high apprehensions, asylum hearings, and the repair and maintenance of equipment. CBP has also identified several automation and technology development initiatives to improve its business processes related to cruise ship processing, should this fee increase be realized, including mobile devices for passenger processing; automated passport control and Global Entry Kiosks; and Entry/Exit Biometric technology development, all for the cruise environment.

The Budget also includes a proposal to lift the exemption for passengers traveling from those partially-exempt regions so that the same fee will be applied to all sea passengers. As noted, each sea passenger arriving in the United States is charged a \$7 fee if his or her journey originated from a place outside of the United States except for certain regions. Lifting this fee limitation will bring collections more in line with the cost of conducting sea passenger inspections as well as help modernize and create more efficient and effective business processes and systems in the cruise environment. Together, the additional receipts collected from these increases would fund 1,210 new CBP officers, which will reduce wait times at air and sea ports of entry, especially as cruise volumes continue to grow as projected in future years. Future budget requests will include an annual increase to these fees to adjust them for inflation.

Department of Transportation

Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline design review fees. The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 (P.L. 112-90) established a new fee for companies engaged in the design, permitting, and construction of new pipeline projects. The legislation allowed for the collection of the fee as a mandatory receipt with the spending subject to appropriations. No fees have been collected to date pursuant to this authority. The Consolidated Appropriations Act of 2014 provided the authority to retain fees collected in FY 2014 pursuant to P.L. 112-90. However, since the Administration would like to use these fees as an offset for discretionary spending and does not wish to collect them as a mandatory receipt in exactly the manner prescribed in P.L. 112-90, the Administration proposes collection of this fee pursuant to appropriations language.

PHMSA: Hazardous materials special permits and approvals fees. The Administration proposes to collect new fees from companies and individuals involved in the transport of hazardous materials who seek waivers from the Hazardous Materials Regulations. The fees will offset some of the PHMSA's costs associated with the special permit and approvals processes.

B. Mandatory User Charge Proposals

1. Offsetting collections

Department of Agriculture (USDA)

Biobased labeling fee. Biobased products are industrial products (other than food or feed) that are composed, in whole or in part, of biological products, including renewable domestic agricultural materials and forestry materials or an intermediate ingredient or feedstock. USDA issues labels for biobased products through the BioPreferred® program that producers can use in advertising their products. To ensure the integrity of the label, the Budget requests authority for USDA to: (1) impose civil penalties on companies who misuse the label and (2) assess each producer who applies for the label a \$500 fee to fund a program audit. This fee, which will begin to be collected once authorizing legislation is enacted, was broadly supported by potential users who commented on the label's proposed rule, which was issued in May 2010.

Department of Labor

Pension Benefit Guaranty Corporation (PBGC): Premium increases. PBGC acts as a backstop to protect pension payments for workers whose companies have failed. Currently, PBGC's pension insurance programs are underfunded, and its liabilities far exceed its assets. PBGC receives no taxpayer funds and its premiums are currently much lower than what a private financial institution would charge for insuring the same risk. The Budget proposes to give the PBGC Board the authority to adjust premiums and directs PBGC to take into account the risks that different sponsors pose to their retirees and to PBGC. This reform will both encourage companies to fully fund their pension benefits and ensure the continued financial soundness of PBGC. This proposal is estimated to save \$20 billion over the next decade.

Department of Transportation

Federal Aviation Administration (FAA): Aviation war-risk insurance. The authority of the Department of Transportation (DOT) to provide aviation war risk insurance expires on September 30, 2014. With the goal of utilizing private capacity to manage aviation war risk, the Administration proposes to reform the program, beginning in FY 2015, by only covering losses resulting from the use of nuclear, bio-chemical, and radioactive (NBCR) attacks and providing a backstop that would trigger FAA full war risk insurance for 90 days in the event of a widespread cancellation of coverage by the private insurance market. Air carriers would be free to negotiate the charge for commercial war risk coverage in the private insurance market. FAA would offer NBCR coverage, and air carriers would pay premiums to FAA for this coverage.

Environmental Protection Agency (EPA)

Confidential Business Information management fee. EPA receives filings under the Toxic Substances Control Act that may contain information claimed as confidential

business information (CBI). The Budget proposes to expand EPA's existing authority to collect fees to recover a portion of the costs of reviewing and maintaining the CBI.

2. Offsetting receipts

Department of Agriculture

Food Safety and Inspection Service (FSIS): Performance and other charges. This fee would be charged to those meat processing plants that have sample failures that result in retesting, have recalls, or are linked to an outbreak. This arrangement will offset the Federal Government's costs for resampling and retesting, while encouraging better food safety practice for processing plants. This fee is expected to generate \$4 million in 2015.

Grain Inspection, Packers, and Stockyards Administration (GIPSA): Standardization and licensing activities. These fees would recover the full cost for the development, review, and maintenance of official U.S. grain standards and also for licensing fees to livestock market agencies, dealers, stockyards, packers, and swine contractors. The fees are expected to generate \$28 million in 2015.

Animal and Plant Health Inspection Service (APHIS): Inspection and licensing charges. The Administration proposes to establish charges for: (1) animal welfare inspections for animal research facilities, carriers, and in-transit handlers of animals, (2) licenses for individuals or companies who seek to market a veterinary biologic, and (3) reviews and inspections that may allow APHIS to issue permits that acknowledge that regulated entities are providing sufficient safeguards in the testing of biotechnologically derived products.

Department of Health and Human Services

Centers for Medicare and Medicaid Services (CMS): Income-related premium increase under Medicare Parts B and D. The Budget contains a proposal to increase income-related premiums under Medicare Parts B and D. Beginning in 2018, this proposal would restructure income-related premiums by increasing the lowest income-related premium 5 percentage points and creating new tiers every 12.5 percentage points until the highest tier is capped at 90 percent. The proposal also maintains the income thresholds associated with income-related premiums until 25 percent of beneficiaries under Parts B and D are subject to these premiums. This will help improve the financial stability of the Medicare program by reducing the Federal subsidy of Medicare costs for those who need the subsidy the least.

CMS: Medicare Part B premium surcharge. Medigap policies are private insurance policies that provide supplemental coverage for certain costs not covered by Medicare such as co-pays and deductibles. Medigap policies with low cost-sharing requirements, those that provide nearly first-dollar Medigap coverage, reduce the effectiveness of Medicare cost-sharing provisions intended to promote efficient health care choices. The Budget proposes a Part B premium surcharge on new Medicare beneficiaries beginning in 2018 who purchase Medigap policies with par-

ticularly low cost-sharing requirements. The surcharge would be equal to approximately 15 percent of the average Medigap premium or 30 percent of the Part B premium.

CMS: Survey and certification revisit fee. The Budget proposes a fee for revisits of health care facilities in the Survey and Certification program to build greater accountability by creating an incentive for facilities to correct deficiencies and ensure quality of care.

Department of Homeland Security

CBP: Permanently extend and reallocate the travel promotion surcharge. Under the Travel Promotion Act of 2009, a \$10 surcharge is added to the existing Electronic System for Travel Authorization (ESTA) user fee that travelers from visa waiver countries pay before arriving in the United States. Under current law, \$100 million of the amount collected from the surcharge in each year may be used by the Corporation for Travel Promotion (BrandUSA) in support of travel promotion activities. The Administration proposes to permanently extend the authorization to collect the surcharge, which is scheduled to expire September 30, 2015. Under the proposal, 80 percent of the amount collected will be allocated to BrandUSA (listed below as governmental receipts), and 20 percent will be allocated to CBP. These funds will support BrandUSA's efforts to promote international travel to the U.S., thereby increasing U.S. tourism exports, and the hiring of 125 new officers by CBP, which will reduce wait times for travelers entering the U.S.

TSA: Aviation passenger security fee increase. As discussed above in the section on discretionary user charge proposals, the budget includes a proposal to increase the aviation passenger security fee incrementally over 2016-2018. The fee would be \$7.50 per one-way trip beginning in 2018 and would generate \$5.4 billion in mandatory receipts over the 10-year budget window, which would be deposited in the general fund to help offset the cost of the proposed Opportunity, Growth, and Security Initiative.

Department of the Interior

Federal oil and gas management reforms. The Budget includes a package of legislative reforms to bolster and backstop administrative actions being taken to reform the management of DOI's onshore and offshore oil and gas programs, with a key focus on improving the return to taxpayers from the sale of these Federal resources. Proposed statutory and administrative changes fall into three general categories: (1) advancing royalty reforms, (2) encouraging diligent development of oil and gas leases, and (3) improving revenue collection processes. Royalty reforms include: establishing minimum royalty rates for oil, gas, and similar products; increasing the standard onshore oil and gas royalty rate; piloting a price-based sliding scale royalty rate; and repealing legislatively-mandated royalty relief for "deep gas" wells. Diligent development requirements include shorter primary lease terms, stricter enforcement of lease terms, and monetary incentives to move leases into production (e.g., a new statutory per-acre fee on nonproducing leases). Revenue collection improvements include simplification of the roy-

alty valuation process, elimination of interest accruals on company overpayments of royalties, and permanent repeal of DOI's authority to accept in-kind royalty payments. Collectively, these reforms will generate roughly \$2.5 billion in net receipts to the Treasury over 10 years, of which about \$1.7 billion would result from statutory changes. Many States will also benefit from higher Federal revenue sharing payments.

BLM: Reform of hardrock mineral production on Federal lands. The Administration proposes to institute a leasing process under the Mineral Leasing Act of 1920 for certain minerals (gold, silver, lead, zinc, copper, uranium, and molybdenum) currently covered by the General Mining Law of 1872. After enactment, mining for these metals on Federal lands would be governed by the new leasing process and subject to annual rental payments and a royalty of not less than 5 percent of gross proceeds. Half of the receipts would be distributed to the States in which the leases are located and the remaining half would be retained by the Treasury. Existing mining claims would be exempt from the change to the leasing system, but would be subject to increases in the annual maintenance fees under the General Mining Law of 1872.

BLM: Reauthorize the Federal Land Transaction Facilitation Act (FLTFA). The Budget proposes to reauthorize the FLTFA, which expired in July 2011, and allow lands identified as suitable for disposal in recent land use plans to be sold using the FLTFA authority. The FLTFA sales revenues would continue to be used to fund the acquisition of environmentally sensitive lands and to cover BLM's administrative costs associated with conducting sales.

Environmental Protection Agency (EPA)

Pre-manufacture notice fee. EPA currently collects fees from chemical manufacturers seeking to market new chemicals. These fees are authorized by the Toxic Substances Control Act and are subject to a statutory cap. The Budget proposes to lift the cap so that EPA can recover a greater portion of the program cost.

Federal Communications Commission (FCC)

Spectrum license fee authority. To promote efficient use of the electromagnetic spectrum, the Administration proposes to provide the FCC with new authority to use other economic mechanisms, such as fees, as a spectrum management tool. The Commission would be authorized to set charges for unauctioned spectrum licenses based on spectrum-management principles. Fees would be phased in over time as part of an ongoing rulemaking process to determine the appropriate application and level for fees. These receipts would help offset the cost of the proposed Opportunity, Growth, and Security Initiative.

Auction domestic satellite service spectrum licenses. The FCC would be allowed to assign licenses for certain satellite services that are predominantly domestic through competitive bidding, as had been done before a 2005 court decision called the practice into question on technical grounds. The proposal is expected to raise \$50 million from 2015-2024. These receipts would help offset the cost of the proposed Opportunity, Growth, and Security Initiative.

Auction or assign via fee 1675-1680 megahertz. The Budget proposes that the Federal Communications Commission either auction or use fee authority to assign spectrum frequencies between 1675-1680 megahertz for wireless broadband use by 2017, subject to sharing arrangements with Federal weather satellites. Currently, the spectrum is being used for radiosondes (weather balloons) and is slated for use by a new weather satellite that is scheduled for launch in 2015. Before 2015, the National Oceanic and Atmospheric Administration (NOAA) plans to alter the radiosondes operations to not interfere with weather satellite transmissions. If this proposal is enacted, NOAA would move the radiosondes to another frequency, allowing the spectrum to be repurposed for commercial use with limited protection zones for the remaining weather satellite downlinks. Without this proposal, these frequencies are unlikely to be auctioned and repurposed to commercial use. The proposal is expected to raise \$300 million in receipts and incur \$70 million in relocation costs, leaving net savings of \$230 million over 10 years.

C. User Charge Proposals that are Governmental Receipts

Department of Energy

Reauthorize special assessment on domestic nuclear facilities. The Administration proposes to reauthorize the special assessment on domestic utilities for deposit into the Uranium Enrichment Decontamination and Decommissioning Fund. Established in 1992, the Fund pays, subject to appropriations, the decontamination and decommissioning costs of the Department of Energy's gaseous diffusion plants in Tennessee, Ohio, and Kentucky. Additional resources, from the proposed special assessment, are required due to higher-than-expected cleanup costs.

Department of the Interior

Migratory bird hunting and conservation stamp fees. Federal Migratory Bird Hunting and Conservation Stamps, commonly known as "Duck Stamps," were originally created in 1934 as the Federal licenses required for hunting migratory waterfowl. Today, ninety-eight percent of the receipts generated from the sale of these stamps (\$15 per stamp per year) are used to acquire important migratory bird breeding areas, migration resting places, and wintering areas.⁸ The land and water interests located and acquired with the Duck Stamp funds establish or add to existing migratory bird refuges and waterfowl production areas. The price of the Duck Stamp has not increased since 1991; however, the cost of land and water has increased significantly over the past 20 years. The

Administration proposes to increase these fees to \$25 per stamp per year, effective beginning in 2015.

Department of Transportation

FAA: Mandatory surcharge for air traffic services. All flights that use controlled air space require a similar level of air traffic services. However, commercial and general aviation can pay very different aviation fees for those same services. To more equitably share the cost of air traffic services across the aviation user community, the Administration proposes to establish a new surcharge for air traffic services of \$100 per flight. Military aircraft, public aircraft, piston aircraft, air ambulances, aircraft operating outside of controlled airspace, and Canada-to-Canada flights would be exempt. The surcharge would be effective for flights beginning after September 30, 2014.

Corps of Engineers—Civil Works

Reform inland waterways funding. The Administration proposes legislation to reform the laws governing the Inland Waterways Trust Fund, including an annual per vessel fee to increase the amount paid by commercial navigation users sufficiently to meet their share of the costs of activities financed from this fund. The additional revenue will enable a more robust level of funding for safe, reliable, highly cost-effective, and environmentally sustainable waterways, and contribute to economic growth. In 1986, the Congress provided that commercial traffic on the inland waterways would be responsible for 50 percent of the capital costs of the locks and dams, and other features that make barge transportation possible on the inland waterways. The current excise tax of 20 cents per gallon on diesel fuel used in inland waterways commerce does not produce the revenue needed to cover the required 50 percent of these costs.

Corporation for Travel Promotion (BrandUSA)

Permanently extend and reallocate the travel promotion surcharge. Under the Travel Promotion Act of 2009, a \$10 surcharge is added to the existing ESTA user fee that travelers from visa waiver countries pay before arriving in the United States. Under current law, \$100 million of the amount collected from the surcharge in each year may be used by the Corporation for Travel Promotion (BrandUSA) in support of travel promotion activities. The Administration proposes to permanently extend the authorization to collect the surcharge, which is scheduled to expire September 30, 2015. Under the proposal, 80 percent of the amount collected will be allocated to BrandUSA and 20 percent will be allocated to CBP (listed above as mandatory offsetting receipts). These funds will support BrandUSA's efforts to promote international travel to the U.S., thereby increasing U.S. tourism exports, and the hiring of 125 new officers by CBP, which will reduce wait times for travelers entering the U.S.

⁸ By law, duck stamp proceeds are available for use without further action by Congress, and, in this way, are similar to offsetting collections.

Table 13-4. USER CHARGE PROPOSALS IN THE FY 2015 BUDGET¹

(Estimated collections in millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015- 2019	2015- 2024
OFFSETTING COLLECTIONS AND OFFSETTING RECEIPTS													
DISCRETIONARY:													
<i>1. Offsetting collections</i>													
Department of Agriculture													
Forest Service: Grazing administrative processing fee		5	5	5	5	.....	.....	.....	.....	.....	.....	20	20
Rural Utilities Service: Infrastructure permitting fee		*	*	*	*	*	*	*	*	*	*	*	1
Rural Housing Service: Guaranteed Underwriting System fee		9	9	9	9	9	9	9	9	9	9	45	90
Department of Commerce													
National Oceanic and Atmospheric Administration: Infrastructure permitting fee		*	*	*	*	*	*	*	*	*	*	*	1
Department of Health and Human Services													
Food and Drug Administration (FDA): Food facilities registration, inspection, and import fees		229	234	238	243	248	253	258	263	268	274	1,192	2,508
FDA: International courier fees		6	6	6	6	6	6	7	7	7	7	30	64
FDA: Cosmetic facility registration fees		19	20	20	21	21	21	22	22	23	23	101	212
FDA: Food contact substances notification fee		5	5	5	5	6	6	6	6	6	6	26	56
Health Resources and Services Administration: 340B Pharmacy Affairs fee		7	7	7	7	7	7	7	7	7	7	35	70
Department of Homeland Security													
Transportation Security Administration (TSA): Aviation passenger security fee increase		195	397	523	662	678	695	712	730	753	777	2,455	6,122
TSA: Aviation security infrastructure fee		420	420	420	420	420	420	420	420	420	420	2,100	4,200
Department of Housing and Urban Development													
Federal Housing Administration: Administrative support fee		30	30	30	30	30	30	30	30	30	30	150	300
Department of the Interior													
Bureau of Land Management (BLM): Public lands oil and gas lease inspection fees		48	48	48	48	48	48	48	48	48	48	240	480
BLM: Grazing administrative processing fee		7	7	7	.....	.....	.....	.....	.....	.....	.....	21	21
Fish and Wildlife Service: Non-toxic shot review and approval fees		*	*	*	*	*	*	*	*	*	*	*	*
Department of Justice													
Antitrust Division: Increase Hart-Scott-Rodino fees	63	65	67	69	70	72	74	76	79	264	635
Department of Labor													
Mine Safety and Health Administration: Rock dust analysis fee	1	1	1	1	1	1	1	1	1	4	9
Occupational Safety and Health Administration (OSHA): OSHA Training Institute fees		*	*	*	*	*	*	*	*	*	*	2	3
Department of State													
Western Hemisphere Travel Initiative surcharge extension		344	.....	.....	.....	.....	.....	.....	.....	.....	.....	344	344
Border Crossing Card fee increase		17	17	17	17	17	17	17	17	17	17	85	170
Department of Transportation													
Safe Transport of Oil fee	20	20	20	20	20	.....	.....	.....	.....	80	100
Commodity Futures Trading Commission (CFTC)													
CFTC fee	285	292	298	305	311	318	326	334	343	1,180	2,812
Consumer Product Safety Commission													
Import surveillance user fee	18	36	36	36	36	36	36	36	36	126	306
Federal Maritime Commission													
Filing and service fees		*	*	*	*	*	*	*	*	*	*	2	3
Federal Trade Commission													
Increase Hart-Scott-Rodino fees	63	65	67	69	70	72	74	76	79	264	635

Table 13–4. USER CHARGE PROPOSALS IN THE FY 2015 BUDGET ¹—Continued

(Estimated collections in millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015– 2019	2015– 2024
<i>2. Offsetting receipts</i>													
Department of Department of Homeland Security													
Customs and Border Protection (CBP): COBRA and Express Consignment Courier Facilities fees		132	182	189	197	202	207	212	217	222	.....	902	1,760
CBP: Immigration inspection user fee (IUF) increase and lifting of IUF fee limitation		200	277	287	300	307	315	322	330	337	345	1,371	3,020
Department of Transportation													
Pipeline and Hazardous Materials Safety Administration (PHMSA): Pipeline design review fees		2	2	2	2	2	3	3	3	3	3	10	25
PHMSA: Hazardous materials special permits and approvals fees		12	12	12	12	12	13	13	13	13	13	60	125
Subtotal, discretionary user charge proposals		1,687	2,128	2,304	2,473	2,513	2,558	2,585	2,633	2,686	2,517	11,109	24,092
MANDATORY:													
<i>1. Offsetting collections</i>													
Department of Agriculture													
Biobased labeling fee		1	1	1	1	1	1	1	1	1	1	5	10
Department of Labor													
Pension Benefit Guaranty Corporation: Premium increases				1,318	1,648	2,003	2,332	2,662	3,016	3,346	3,676	4,969	20,001
Department of Transportation													
Federal Aviation Administration: Aviation war-risk insurance		45	46	46	47	48	49	50	51	51	52	232	485
Environmental Protection Agency													
Confidential Business Information management fee			2	1	1	1	2	1	1	1	2	5	12
<i>2. Offsetting receipts</i>													
Department of Agriculture													
Food Safety and Inspection Service: Performance and other charges		4	4	4	5	5	5	5	5	5	5	22	47
Grain, Inspection, Packers, and Stockyards Administration: Standardization and licensing activities		28	28	29	29	29	30	30	31	32	33	143	299
Animal and Plant Health Inspection Service: Inspection and licensing charges		20	27	27	28	29	30	31	32	33	34	131	291
Department of Health and Human Services													
Centers for Medicare and Medicaid Services (CMS): Income-related premium increase under Medicare Parts B and D					1,720	2,600	5,760	7,870	9,540	11,530	13,770	4,320	52,790
CMS: Medicare Part B premium surcharge					70	160	270	380	510	640	710	230	2,740
CMS: Survey and certification revisit fee			5	10	10	20	25	25	25	25	25	45	170
Department of Homeland Security													
CBP: Permanently extend and reallocate the travel promotion surcharge			28	30	31	32	32	33	34	35	35	121	290
TSA: Aviation passenger security fee increase			200	425	650	660	670	680	690	695	700	1,935	5,370
Department of the Interior													
Federal oil and gas management reforms		50	120	125	150	170	185	200	215	225	240	615	1,680
BLM: Reform of hardrock mineral production on Federal lands			2	4	5	5	6	6	11	17	24	16	80
BLM: Reauthorize the Federal Land Transaction Facilitation Act		4	6	9	12	3	.....	.....	.....	.....	.....	34	34
Environmental Protection Agency													
Pre-manufacture notice fee		4	8	8	8	8	8	8	8	8	8	36	76
Federal Communications Commission													
Spectrum license fee authority		200	300	425	550	550	550	550	550	550	550	2,025	4,775
Auction domestic satellite service spectrum licenses		25	25	.....	.....	.....	.....	.....	.....	.....	.....	50	50
Auction or assign via fee 1675–1680 megahertz				80	150	.....	.....	.....	.....	.....	.....	230	230
Subtotal, mandatory user charge proposals		381	802	2,542	5,115	6,324	9,955	12,532	14,720	17,194	19,865	15,164	89,430
Subtotal, user charge proposals that are offsetting collections and offsetting receipts		2,068	2,930	4,846	7,588	8,837	12,513	15,117	17,353	19,880	22,382	26,273	113,522

Table 13–4. USER CHARGE PROPOSALS IN THE FY 2015 BUDGET ¹—Continued
(Estimated collections in millions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015– 2019	2015– 2024
GOVERNMENTAL RECEIPTS													
Department of Energy													
Reauthorize special assessment on domestic nuclear facilities	200	204	209	213	218	223	229	234	239	245	1,044	2,214
Department of the Interior													
Migratory bird hunting and conservation stamp fees	14	14	14	14	14	14	14	14	14	14	70	140
Department of Transportation:													
Federal Aviation Administration: Mandatory surcharge for air traffic services	725	756	787	816	844	870	894	921	947	973	3,928	8,533
Corps of Engineers - Civil Works													
Reform inland waterways funding	82	113	113	113	113	113	113	113	113	114	534	1,100
Corporation for Travel Promotion (BrandUSA)													
Permanently extend and reallocate the travel promotion surcharge	114	118	123	126	129	132	135	139	142	481	1,158
Subtotal, governmental receipts user charge proposals	1,021	1,201	1,241	1,279	1,315	1,349	1,382	1,417	1,452	1,488	6,057	13,145
Total, user charge proposals	3,089	4,131	6,087	8,867	10,152	13,862	16,499	18,770	21,332	23,870	32,330	126,667

* \$500,000 or less.

¹ A positive sign indicates an increase in collections.

14. TAX EXPENDITURES

The Congressional Budget Act of 1974 (Public Law 93–344) requires that a list of “tax expenditures” be included in the budget. Tax expenditures are defined in the law as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” These exceptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

Identification and measurement of tax expenditures depends crucially on the baseline tax system against which the actual tax system is compared. The tax expenditure estimates presented in this chapter are patterned on a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time.

An important assumption underlying each tax expenditure estimate reported below is that other parts of the

Tax Code remain unchanged. The estimates would be different if tax expenditures were changed simultaneously because of potential interactions among provisions. For that reason, this chapter does not present a grand total for the estimated tax expenditures.

Tax expenditures relating to the individual and corporate income taxes are estimated for fiscal years 2013–2019 using two methods of accounting: current revenue effects and present value effects. The present value approach provides estimates of the revenue effects for tax expenditures that generally involve deferrals of tax payments into the future.

A discussion of performance measures and economic effects related to the assessment of the effect of tax expenditures on the achievement of program performance goals is presented in Appendix A. This section is a complement to the Government-wide performance plan required by the Government Performance and Results Act of 1993.

TAX EXPENDITURES IN THE INCOME TAX

Tax Expenditure Estimates

All tax expenditure estimates presented here are based upon current tax law enacted as of December 31, 2013. In most cases, expired or repealed provisions are not listed if their revenue effects result only from taxpayer activity occurring before fiscal year 2013. The estimates are based on the economic assumptions from the Mid-Session Review of the 2014 Budget (except for health tax expenditures which are updated using assumptions in the February FY15 Budget.) The estimates reflect the “American Taxpayer Relief Act of 2012” (ATRA), enacted into law on January 2, 2013, which extended many tax expenditures, changed income tax rates, and provided Alternative Minimum Tax relief.

The total revenue effects for tax expenditures for fiscal years 2013–2019 are displayed according to the Budget’s functional categories in Table 14–1. Descriptions of the specific tax expenditure provisions follow the tables of estimates and the discussion of general features of the tax expenditure concept.

Two baseline concepts—the normal tax baseline and the reference tax law baseline—are used to identify and estimate tax expenditures.¹ For the most part, the two concepts coincide. However, items treated as tax expendi-

tures under the normal tax baseline, but not the reference tax law baseline, are indicated by the designation “normal tax method” in the tables. The revenue effects for these items are zero using the reference tax rules. The alternative baseline concepts are discussed in detail following the tables.

Table 14–2 reports separately the respective portions of the total revenue effects that arise under the individual and corporate income taxes separately. The location of the estimates under the individual and corporate headings does not imply that these categories of filers benefit from the special tax provisions in proportion to the respective tax expenditure amounts shown. Rather, these breakdowns show the form of tax liability that the various provisions affect. The ultimate beneficiaries of corporate tax expenditures could be shareholders, employees, customers, or other providers of capital, depending on economic forces.

Table 14–3 ranks the major tax expenditures by the size of their 2015–2019 revenue effect. The first column provides the number of the provision in order to cross reference this table to Tables 14–1 through 14–3, as well as to the descriptions below.

Interpreting Tax Expenditure Estimates

The estimates shown for individual tax expenditures in Tables 14–1, 14–2, and 14–3 do not necessarily equal the increase in Federal revenues (or the change in the budget

¹ These baseline concepts are thoroughly discussed in Special Analysis G of the 1985 Budget, where the former is referred to as the pre-1983 method and the latter the post-1982 method.

balance) that would result from repealing these special provisions, for the following reasons.

First, eliminating a tax expenditure may have incentive effects that alter economic behavior. These incentives can affect the resulting magnitudes of the activity or of other tax provisions or Government programs. For example, if capital gains were taxed at ordinary rates, capital gain realizations would be expected to decline, resulting in lower tax receipts. Such behavioral effects are not reflected in the estimates.

Second, tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenues associated with other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase the revenue costs from other deductions because some taxpayers would be moved into higher tax brackets. Alternatively, repeal of an itemized deduction could lower the revenue cost from other deductions if taxpayers are led to claim the standard deduction instead of itemizing. Similarly, if two provisions were repealed simultaneously, the increase in tax liability could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force. In addition, the estimates reported in Table 14–1 are the totals of individual and corporate income tax revenue effects reported in Table 14–2 and do not reflect any possible interactions between individual and corporate income tax receipts. For this reason, the estimates in Table 14–1 should be regarded as approximations.

Present-Value Estimates

The annual value of tax expenditures for tax deferrals is reported on a cash basis in all tables except Table 14–4. Cash-based estimates reflect the difference between taxes deferred in the current year and incoming revenues that are received due to deferrals of taxes from prior years. Although such estimates are useful as a measure of cash flows into the Government, they do not accurately reflect the true economic cost of these provisions. For example, for a provision where activity levels have changed, so that incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative, despite the fact that in present-value terms current deferrals have a real cost to the Government. Alternatively, in the case of a newly enacted deferral provision, a cash-based estimate can overstate the real effect on receipts to the Government because the newly deferred taxes will ultimately be received.

Discounted present-value estimates of revenue effects are presented in Table 14–4 for certain provisions that involve tax deferrals or other long-term revenue effects. These estimates complement the cash-based tax expenditure estimates presented in the other tables.

The present-value estimates represent the revenue effects, net of future tax payments, that follow from activities undertaken during calendar year 2013 which cause the deferrals or other long-term revenue effects. For instance, a pension contribution in 2013 would cause a de-

ferral of tax payments on wages in 2013 and on pension fund earnings on this contribution (e.g., interest) in later years. In some future year, however, the 2013 pension contribution and accrued earnings will be paid out and taxes will be due; these receipts are included in the present-value estimate. In general, this conceptual approach is similar to the one used for reporting the budgetary effects of credit programs, where direct loans and guarantees in a given year affect future cash flows.

Tax Expenditure Baselines

A tax expenditure is an exception to baseline provisions of the tax structure that usually results in a reduction in the amount of tax owed. The 1974 Congressional Budget Act, which mandated the tax expenditure budget, did not specify the baseline provisions of the tax law. As noted previously, deciding whether provisions are exceptions, therefore, is a matter of judgment. As in prior years, most of this year's tax expenditure estimates are presented using two baselines: the normal tax baseline and the reference tax law baseline. Tax expenditures may take the form of credits, deductions, special exceptions and allowances, and reduce tax liability below the level implied by the baseline tax system.

The normal tax baseline is patterned on a practical variant of a comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. The normal tax baseline allows personal exemptions, a standard deduction, and deduction of expenses incurred in earning income. It is not limited to a particular structure of tax rates, or by a specific definition of the taxpaying unit.

The reference tax law baseline is also patterned on a comprehensive income tax, but it is closer to existing law. Reference law tax expenditures are limited to special exceptions from a generally provided tax rule that serve programmatic functions in a way that is analogous to spending programs. Provisions under the reference law baseline are generally tax expenditures under the normal tax baseline, but the reverse is not always true.

Both the normal and reference tax baselines allow several major departures from a pure comprehensive income tax. For example, under the normal and reference tax baselines:

- Income is taxable only when it is realized in exchange. Thus, the deferral of tax on unrealized capital gains is not regarded as a tax expenditure. Accrued income would be taxed under a comprehensive income tax.
- There is a separate corporate income tax.
- Noncorporate tax rates vary by level of income.
- Individual tax rates, including brackets, standard deduction, and personal exemptions, are allowed to vary with marital status.
- Values of assets and debt are not generally adjusted for inflation. A comprehensive income tax would

Table 14–1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2013–2019

(In millions of dollars)

	Total from corporations and individuals							
	2013	2014	2015	2016	2017	2018	2019	2015–19
National Defense								
1 Exclusion of benefits and allowances to armed forces personnel	11,620	12,620	13,230	12,200	12,310	12,730	13,240	63,710
International affairs:								
2 Exclusion of income earned abroad by U.S. citizens	4,410	4,310	4,350	4,470	4,730	4,990	5,200	23,740
3 Exclusion of certain allowances for Federal employees abroad	1,100	1,160	1,220	1,280	1,340	1,410	1,480	6,730
4 Inventory property sales source rules exception	3,320	3,600	3,890	4,220	4,560	4,940	5,352	22,962
5 Deferral of income from controlled foreign corporations (normal tax method)	63,440	72,740	75,540	76,380	76,260	73,970	71,060	373,210
6 Deferred taxes for financial firms on certain income earned overseas	6,660	2,700	0	0	0	0	0	0
General science, space, and technology:								
7 Expensing of research and experimentation expenditures (normal tax method)	5,840	5,160	4,800	5,450	6,230	6,930	7,270	30,680
8 Credit for increasing research activities	8,430	5,420	3,170	2,860	2,570	2,300	2,030	12,930
Energy:								
9 Expensing of exploration and development costs, fuels	550	510	510	590	600	550	520	2,770
10 Excess of percentage over cost depletion, fuels	530	670	780	920	1,070	1,230	1,390	5,390
11 Alternative fuel production credit	10	0	0	0	0	0	0	0
12 Exception from passive loss limitation for working interests in oil and gas properties	20	20	20	20	20	20	20	100
13 Capital gains treatment of royalties on coal	90	80	90	110	120	120	130	570
14 Exclusion of interest on energy facility bonds	20	30	30	30	30	30	30	150
15 Energy production credit ¹	1,670	2,370	3,000	3,330	3,370	3,210	3,130	16,040
16 Energy investment credit ¹	1,950	1,840	1,470	1,380	850	220	–20	3,900
17 Alcohol fuel credits ²	40	10	10	0	0	0	0	10
18 Bio-Diesel and small agri-biodiesel producer tax credits ³	20	20	0	0	0	0	0	0
19 Tax credits for clean-fuel burning vehicles	270	440	670	680	650	400	150	2,550
20 Exclusion of utility conservation subsidies	340	340	340	340	320	320	320	1,640
21 Credit for holding clean renewable energy bonds ⁴	70	70	70	70	70	70	70	350
22 Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	0	–60	–220	–220	–200	–170	–140	–950
23 Credit for investment in clean coal facilities	180	200	140	40	20	–10	–10	180
24 Temporary 50% expensing for equipment used in the refining of liquid fuels	600	–100	–700	–830	–870	–800	–660	–3,860
25 Natural gas distribution pipelines treated as 15-year property	100	100	100	110	110	120	120	560
26 Amortize all geological and geophysical expenditures over 2 years	100	110	130	130	120	100	100	580
27 Allowance of deduction for certain energy efficient commercial building property	70	40	20	0	0	–20	–20	–20
28 Credit for construction of new energy efficient homes	150	120	60	20	0	0	0	80
29 Credit for energy efficiency improvements to existing homes	610	0	0	0	0	0	0	0
30 Credit for energy efficient appliances	150	130	120	100	0	0	0	220
31 Credit for residential energy efficient property	960	1,060	1,170	1,300	540	0	0	3,010
32 Qualified energy conservation bonds ⁵	20	30	30	30	30	30	30	150
33 Advanced energy property credit	210	110	90	0	0	–10	–10	70
34 Advanced nuclear power production credit	0	0	0	0	210	470	590	1,270
Natural resources and environment:								
35 Expensing of exploration and development costs, nonfuel minerals	50	50	50	60	60	60	60	290
36 Excess of percentage over cost depletion, nonfuel minerals	580	590	590	600	610	620	640	3,060
37 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	450	490	560	630	690	730	790	3,400
38 Capital gains treatment of certain timber income	90	80	90	110	120	120	130	570
39 Expensing of multiperiod timber growing costs	280	300	300	320	330	340	360	1,650
40 Tax incentives for preservation of historic structures	570	580	600	610	620	630	640	3,100
41 Industrial CO ₂ capture and sequestration tax credit	80	80	80	130	250	120	0	580
42 Deduction for endangered species recovery expenditures	20	20	20	30	30	30	30	140
Agriculture:								
43 Expensing of certain capital outlays	90	100	100	110	110	120	120	560
44 Expensing of certain multiperiod production costs	140	140	140	140	150	150	160	740
45 Treatment of loans forgiven for solvent farmers	40	40	40	40	40	40	40	200

Table 14-1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2013–2019—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2013	2014	2015	2016	2017	2018	2019	2015–19
46	Capital gains treatment of certain income	920	800	920	1,060	1,160	1,230	1,280	5,650
47	Income averaging for farmers	130	130	130	140	140	140	140	690
48	Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100
49	Expensing of reforestation expenditures	70	70	70	80	80	90	100	420
Commerce and housing:									
Financial institutions and insurance:									
50	Exemption of credit union income	2,000	2,070	1,970	2,370	2,700	2,770	3,000	12,810
51	Exclusion of interest on life insurance savings	18,930	21,270	23,040	24,690	26,370	28,180	30,090	132,370
52	Special alternative tax on small property and casualty insurance companies	10	10	10	10	20	20	20	80
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	600	660	690	730	760	790	830	3,800
54	Small life insurance company deduction	30	30	40	40	40	40	40	200
55	Exclusion of interest spread of financial institutions	210	1,260	1,840	1,940	2,030	2,130	2,230	10,170
Housing:									
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,230	1,360	1,510	1,700	1,880	2,000	2,140	9,230
57	Exclusion of interest on rental housing bonds	1,000	1,090	1,230	1,390	1,520	1,640	1,750	7,530
58	Deductibility of mortgage interest on owner-occupied homes	69,020	70,370	73,910	79,830	89,150	100,600	112,840	456,330
59	Deductibility of State and local property tax on owner-occupied homes	29,290	31,740	33,880	36,570	39,600	42,730	45,770	198,550
60	Deferral of income from installment sales	1,140	1,330	1,470	1,630	1,760	1,860	1,950	8,670
61	Capital gains exclusion on home sales	34,270	52,250	56,510	61,110	66,090	71,480	77,300	332,490
62	Exclusion of net imputed rental income	72,440	76,220	79,810	83,470	87,900	92,570	97,488	441,238
63	Exception from passive loss rules for \$25,000 of rental loss	8,660	9,820	10,360	10,910	11,550	12,240	12,810	57,870
64	Credit for low-income housing investments	7,410	8,310	8,280	8,330	8,730	9,080	9,420	43,840
65	Accelerated depreciation on rental housing (normal tax method)	1,780	2,090	2,500	3,020	3,560	4,130	4,710	17,920
66	Discharge of mortgage indebtedness	3,360	870	0	0	0	0	0	0
Commerce:									
67	Discharge of business indebtedness	0	–60	–80	–80	–60	–20	20	–220
68	Exceptions from imputed interest rules	20	30	40	40	50	50	60	240
69	Treatment of qualified dividends	23,650	23,840	26,650	28,580	30,040	31,290	32,390	148,950
70	Capital gains (except agriculture, timber, iron ore, and coal)	68,860	60,030	68,850	79,300	86,950	91,550	95,620	422,270
71	Capital gains exclusion of small corporation stock	140	340	480	640	850	1,000	1,010	3,980
72	Step-up basis of capital gains at death	23,050	30,780	32,370	34,010	35,750	37,600	39,580	179,310
73	Carryover basis of capital gains on gifts	2,870	2,290	2,560	2,810	3,060	3,260	3,400	15,090
74	Ordinary income treatment of loss from small business corporation stock sale	60	60	60	60	60	60	60	300
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	–7,650	–7,570	–7,540	–7,690	–7,970	–8,350	–8,990	–40,540
76	Accelerated depreciation of machinery and equipment (normal tax method)	48,460	15,300	15,470	35,640	52,860	69,300	84,420	257,690
77	Expensing of certain small investments (normal tax method)	3,950	–1,180	–2,040	–570	380	1,080	1,570	420
78	Graduated corporation income tax rate (normal tax method)	4,300	4,200	4,130	4,100	4,220	4,200	4,370	21,020
79	Exclusion of interest on small issue bonds	170	190	210	230	250	280	290	1,260
80	Deduction for US production activities	12,860	13,790	14,480	15,200	15,840	16,820	16,150	78,490
81	Special rules for certain film and TV production	290	207	120	80	40	10	0	250
Transportation:									
82	Tonnage tax	60	70	70	70	80	80	90	520
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100
84	Exclusion of reimbursed employee parking expenses	2,580	2,670	2,780	2,900	3,010	3,110	3,220	15,020
85	Exclusion for employer-provided transit passes	710	710	710	770	810	860	920	4,070
86	Tax credit for certain expenditures for maintaining railroad tracks	120	60	0	0	0	0	0	0
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities	240	230	220	210	200	190	170	990
Community and regional development:									
88	Investment credit for rehabilitation of structures (other than historic)	30	30	30	30	30	30	30	150
89	Exclusion of interest for airport, dock, and similar bonds	740	820	920	1,030	1,130	1,210	1,300	5,590
90	Exemption of certain mutuals' and cooperatives' income	110	120	120	120	130	130	130	630
91	Empowerment zones, the DC enterprise zone, and renewal communities	450	350	200	190	190	180	150	910

Table 14-1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2013–2019—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2013	2014	2015	2016	2017	2018	2019	2015–19
92	New markets tax credit	950	1,010	1,040	1,050	960	750	560	4,360
93	Expensing of environmental remediation costs	–180	–180	–170	–160	–160	–160	–160	–810
94	Credit to holders of Gulf Tax Credit Bonds	220	240	280	310	340	360	390	1,680
95	Recovery Zone Bonds ⁶	120	130	150	160	180	190	210	890
96	Tribal Economic Development Bonds	20	40	40	60	60	60	60	280
Education, training, employment, and social services:									
Education:									
97	Exclusion of scholarship and fellowship income (normal tax method)	2,890	2,980	3,090	3,200	3,310	3,420	3,550	16,570
98	HOPE tax credit	0	0	0	0	0	720	7,230	7,950
99	Lifetime Learning tax credit	1,810	1,680	1,720	1,740	1,740	1,880	3,100	10,180
100	American Opportunity Tax Credit ⁷	12,540	15,530	15,240	15,310	15,370	13,760	0	59,680
101	Education Individual Retirement Accounts	70	80	100	110	120	130	150	610
102	Deductibility of student-loan interest	1,720	1,720	1,780	1,780	1,790	1,790	1,840	8,980
103	Deduction for higher education expenses	600	560	0	0	0	0	0	0
104	Qualified tuition programs	1,680	1,770	1,900	2,050	2,200	2,350	2,520	11,020
105	Exclusion of interest on student-loan bonds	510	560	620	700	760	820	880	3,780
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,240	2,480	2,760	3,120	3,430	3,660	3,930	16,900
107	Credit for holders of zone academy bonds ⁸	200	180	160	130	120	110	100	620
108	Exclusion of interest on savings bonds redeemed to finance educational expenses ..	10	10	10	20	20	20	20	90
109	Parental personal exemption for students age 19 or over	5,200	5,320	5,400	5,490	5,570	5,660	5,760	27,880
110	Deductibility of charitable contributions (education)	4,550	5,040	5,370	5,810	6,290	6,780	7,290	31,540
111	Exclusion of employer-provided educational assistance	710	750	800	850	900	950	1,000	4,500
112	Special deduction for teacher expenses	190	170	0	0	0	0	0	0
113	Discharge of student loan indebtedness	90	90	90	90	100	100	100	480
114	Qualified school construction bonds ⁹	580	650	650	650	650	650	650	3,250
Training, employment, and social services:									
115	Work opportunity tax credit	900	880	460	250	200	170	130	1,210
116	Employer provided child care exclusion	880	920	970	1,040	1,110	1,170	1,240	5,530
117	Employer-provided child care credit	10	10	10	10	10	10	10	50
118	Assistance for adopted foster children	530	530	560	590	620	660	700	3,130
119	Adoption credit and exclusion ¹⁰	450	540	580	600	640	730	660	3,210
120	Exclusion of employee meals and lodging (other than military)	2,185	3,700	3,797	3,910	4,032	4,155	4,278	20,172
121	Child credit ¹¹	23,480	23,350	23,500	23,620	23,480	23,450	23,480	117,530
122	Credit for child and dependent care expenses	4,160	4,200	4,310	4,460	4,590	4,690	4,760	22,810
123	Credit for disabled access expenditures	30	30	30	30	30	40	40	170
124	Deductibility of charitable contributions, other than education and health	39,260	43,600	46,630	50,600	54,940	59,390	64,250	275,810
125	Exclusion of certain foster care payments	380	380	390	380	370	370	360	1,870
126	Exclusion of parsonage allowances	737	720	758	798	840	885	931	4,212
127	Indian employment credit	50	40	20	20	20	10	10	80
Health:									
128	Exclusion of employer contributions for medical insurance premiums and medical care ¹² ...	185,330	196,010	207,200	217,140	229,000	241,070	256,290	1,150,700
129	Self-employed medical insurance premiums	6,140	6,670	6,970	7,240	7,550	7,870	8,170	37,800
130	Medical Savings Accounts / Health Savings Accounts	3,110	3,900	4,890	6,110	7,630	9,440	11,720	39,790
131	Deductibility of medical expenses	8,010	8,090	8,560	8,910	8,840	9,370	10,510	46,190
132	Exclusion of interest on hospital construction bonds	3,430	3,790	4,210	4,740	5,220	5,570	5,970	25,710
133	Refundable Premium Assistance Tax Credit ¹³	0	0	–3,940	–4,060	–5,740	–6,290	–6,540	–26,570
134	Credit for employee health insurance expenses of small business ¹⁴	630	870	1,050	1,040	760	470	330	3,650
135	Deductibility of charitable contributions (health)	4,470	4,980	5,350	5,820	6,340	6,880	7,460	31,850
136	Tax credit for orphan drug research	1,040	1,260	1,520	1,830	2,210	2,660	3,210	11,430
137	Special Blue Cross/Blue Shield deduction	190	230	360	430	480	440	370	2,080
138	Tax credit for health insurance purchased by certain displaced and retired individuals ¹⁵	10	0	0	0	0	0	0	0
139	Distributions from retirement plans for premiums for health and long-term care insurance	320	360	400	440	460	480	500	2,280

Table 14-1. ESTIMATES OF TOTAL INCOME TAX EXPENDITURES FOR FISCAL YEARS 2013–2019—Continued

(In millions of dollars)

		Total from corporations and individuals							
		2013	2014	2015	2016	2017	2018	2019	2015–19
Income security:									
140	Exclusion of railroad retirement system benefits	380	370	360	350	320	300	270	1,600
141	Exclusion of workers' compensation benefits	10,090	10,310	10,500	10,640	10,790	10,950	11,100	53,980
142	Exclusion of public assistance benefits (normal tax method)	770	790	820	860	900	940	980	4,500
143	Exclusion of special benefits for disabled coal miners	30	30	30	20	20	20	20	110
144	Exclusion of military disability pensions	110	110	110	110	110	110	110	550
Net exclusion of pension contributions and earnings:									
145	Defined benefit employer plans	37,860	40,090	42,340	44,750	47,270	49,160	51,440	234,960
146	Defined contribution employer plans	50,670	59,380	61,050	77,020	88,740	92,770	94,820	414,400
147	Individual Retirement Accounts	19,310	17,450	17,480	18,540	19,630	20,650	21,720	98,020
148	Low and moderate income savers credit	1,190	1,200	1,210	1,260	1,300	1,280	1,300	6,350
149	Self-Employed plans	19,400	23,300	25,530	28,100	30,890	33,860	37,150	155,530
Exclusion of other employee benefits:									
150	Premiums on group term life insurance	1,910	1,940	1,980	2,030	2,080	2,130	2,180	10,400
151	Premiums on accident and disability insurance	310	310	310	320	320	330	330	1,610
152	Income of trusts to finance supplementary unemployment benefits	20	20	30	40	40	50	60	220
153	Special ESOP rules	1,650	1,730	1,810	1,910	2,000	2,090	2,200	10,010
154	Additional deduction for the blind	30	30	30	30	40	40	40	180
155	Additional deduction for the elderly	2,380	2,560	2,800	3,040	3,310	3,610	3,850	16,610
156	Tax credit for the elderly and disabled	10	10	10	10	10	10	10	50
157	Deductibility of casualty losses	310	340	360	380	400	420	430	1,990
158	Earned income tax credit ¹⁶	4,070	4,330	4,330	4,400	4,520	4,640	4,550	22,440
Social Security:									
Exclusion of social security benefits:									
159	Social Security benefits for retired workers	26,440	28,730	29,840	30,900	31,920	33,010	34,260	159,930
160	Social Security benefits for disabled workers	8,200	8,560	8,740	8,930	9,100	9,250	9,420	45,440
161	Social Security benefits for spouses, dependents and survivors	3,760	3,970	4,100	4,300	4,470	4,540	4,740	22,150
Veterans benefits and services:									
162	Exclusion of veterans death benefits and disability compensation	4,620	5,080	5,490	5,980	6,500	7,080	7,700	32,750
163	Exclusion of veterans pensions	410	430	450	470	480	490	510	2,400
164	Exclusion of GI bill benefits	980	1,110	1,160	1,240	1,320	1,410	1,500	6,630
165	Exclusion of interest on veterans housing bonds	10	10	20	20	30	30	30	130
General purpose fiscal assistance:									
166	Exclusion of interest on public purpose State and local bonds	28,440	31,450	35,010	39,420	43,400	46,340	49,660	213,830
167	Build America Bonds ¹⁷	0	0	0	0	0	0	0	0
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	44,020	46,710	49,290	53,450	58,120	62,800	67,140	290,800
Interest:									
169	Deferral of interest on U.S. savings bonds	1,020	1,080	1,090	1,100	1,120	1,130	1,140	5,580
Addendum: Aid to State and local governments:									
Deductibility of:									
	Property taxes on owner-occupied homes	29,290	31,740	33,880	36,570	39,600	42,730	45,770	198,550
	Nonbusiness State and local taxes other than on owner-occupied homes	44,020	46,710	49,290	53,450	58,120	62,800	67,140	290,800
Exclusion of interest on State and local bonds for:									
	Public purposes	28,440	31,450	35,010	39,420	43,400	46,340	49,660	213,830
	Energy facilities	20	30	30	30	30	30	30	150
	Water, sewage, and hazardous waste disposal facilities	450	490	560	630	690	730	790	3,400
	Small-issues	170	190	210	230	250	280	290	1,260
	Owner-occupied mortgage subsidies	1,230	1,360	1,510	1,700	1,880	2,000	2,140	9,230
	Rental housing	1,000	1,090	1,230	1,390	1,520	1,640	1,750	7,530
	Airports, docks, and similar facilities	740	820	920	1,030	1,130	1,210	1,300	5,590

(In millions of dollars)

		Total from corporations and individuals							
		2013	2014	2015	2016	2017	2018	2019	2015–19
	Student loans	510	560	620	700	760	820	880	3,780
	Private nonprofit educational facilities	2,240	2,480	2,760	3,120	3,430	3,660	3,930	16,900
	Hospital construction	3,430	3,790	4,210	4,740	5,220	5,570	5,970	25,710
	Veterans' housing	10	10	20	20	30	30	30	130

² In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$10; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0. The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$350; 2014 \$200; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0.

⁴ In addition, the provision has outlay effects of (in millions of dollars): 2013 \$40; 2014 \$50; 2015 \$50; 2016 \$50; 2017 \$50; 2018 \$50; 2019 \$50.

⁶ In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2013 \$160, 2014 \$160, 2015 \$160, 2016 \$160; and 2017 \$160; 2018 \$160; 2019 \$160.

⁸ In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2013 \$20; 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30; 2018 \$30; and 2019 \$30.

¹⁰ The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$0.

¹²The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2013 \$117,920; 2014 \$122,990; 2015 \$127,980; 2016 \$132,400; 2017 \$138,330; 2018 \$145,270; 2019 \$153,870.

¹⁴ In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2013 \$80; 2014 \$100; 2015 \$110; 2016 \$120; 2017 \$110; 2018 \$70; 2019 \$50.

¹⁶The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$56,760; 2014

\$58,430; 2015 \$58,070; 2016 \$58,360; 2017 \$59,500; 2018 \$60,900; and 2019 59,330.

¹⁷ In addition, Build America Bonds have outlay effects of (in millions of dollars): 2013 \$3,190; 2014 \$3,190; 2015 \$3,190; 2016 \$3,190; 2017 \$3,190; 2018 \$3,190, and 2019 \$3190.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest \$10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 14–2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019

(In millions of dollars)

	Corporations								Individuals							
	2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19
National Defense																
1 Exclusion of benefits and allowances to armed forces personnel									11,620	12,620	13,230	12,200	12,310	12,730	13,240	63,710
International affairs:																
2 Exclusion of income earned abroad by U.S. citizens									4,410	4,310	4,350	4,470	4,730	4,990	5,200	23,740
3 Exclusion of certain allowances for Federal employees abroad									1,100	1,160	1,220	1,280	1,340	1,410	1,480	6,730
4 Inventory property sales source rules exception	3,320	3,600	3,890	4,220	4,560	4,940	5,352	22,962								
5 Deferral of income from controlled foreign corporations (normal tax method)	63,440	72,740	75,540	76,380	76,260	73,970	71,060	373,210								
6 Deferred taxes for financial firms on certain income earned overseas	6,660	2,700	0	0	0	0	0	0								
General science, space, and technology:																
7 Expensing of research and experimentation expenditures (normal tax method)	5,340	4,730	4,480	5,080	5,800	6,450	6,760	28,570	500	430	320	370	430	480	510	2,110
8 Credit for increasing research activities	7,910	5,150	3,040	2,740	2,460	2,200	1,940	12,380	520	270	130	120	110	100	90	550
Energy:																
9 Expensing of exploration and development costs, fuels	460	430	430	490	500	460	430	2,310	90	80	80	100	100	90	90	460
10 Excess of percentage over cost depletion, fuels	450	560	650	760	880	1,010	1,140	4,440	80	110	130	160	190	220	250	950
11 Alternative fuel production credit	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Exception from passive loss limitation for working interests in oil and gas properties									20	20	20	20	20	20	20	100
13 Capital gains treatment of royalties on coal									90	80	90	110	120	120	130	570
14 Exclusion of interest on energy facility bonds	10	10	10	10	10	10	10	50	10	20	20	20	20	20	20	100
15 Energy production credit ¹	1,250	1,780	2,250	2,500	2,530	2,410	2,350	12,040	420	590	750	830	840	800	780	4,000
16 Energy investment credit ¹	1,560	1,470	1,180	1,100	680	180	-20	3,120	390	370	290	280	170	40	0	780
17 Alcohol fuel credits ²	10	0	0	0	0	0	0	0	30	10	10	0	0	0	0	10
18 Bio-Diesel and small agri-biodiesel producer tax credits ³	10	10	0	0	0	0	0	0	10	10	0	0	0	0	0	0
19 Tax credits for clean-fuel burning vehicles	60	100	120	130	100	50	20	420	210	340	550	550	550	350	130	2,130
20 Exclusion of utility conservation subsidies ...	20	20	20	20	10	10	10	70	320	320	320	320	310	310	310	1,570
21 Credit for holding clean renewable energy bonds ⁴	20	20	20	20	20	20	20	100	50	50	50	50	50	50	50	250
22 Deferral of gain from dispositions of transmission property to implement FERC restructuring policy		-60	-220	-220	-200	-170	-140	-950	0	0	0	0	0	0	0	0
23 Credit for investment in clean coal facilities	170	190	130	40	20	-10	-10	170	10	10	10	0	0	0	0	10
24 Temporary 50% expensing for equipment used in the refining of liquid fuels	600	-100	-700	-830	-870	-800	-660	-3,860	0	0	0	0	0	0	0	0
25 Natural gas distribution pipelines treated as 15-year property	100	100	100	110	110	120	120	560	0	0	0	0	0	0	0	0
26 Amortize all geological and geophysical expenditures over 2 years	80	80	100	100	90	80	80	450	20	30	30	30	30	20	20	130
27 Allowance of deduction for certain energy efficient commercial building property ...	30	20	10	0	0	-10	-10	-10	40	20	10	0	0	-10	-10	-10
28 Credit for construction of new energy efficient homes	50	40	20	10	0	0	0	30	100	80	40	10	0	0	0	50
29 Credit for energy efficiency improvements to existing homes									610	0	0	0	0	0	0	0
30 Credit for energy efficient appliances	150	130	120	100	0	0	0	220	0	0	0	0	0	0	0	0
31 Credit for residential energy efficient property	0	0	0	0	0	0	0	0	960	1,060	1,170	1,300	540	0	0	3,010
32 Qualified energy conservation bonds ⁵	10	10	10	10	10	10	10	50	10	20	20	20	20	20	20	100
33 Advanced Energy Property Credit	210	110	90	0	0	-10	-10	70	0	0	0	0	0	0	0	0
34 Advanced nuclear power production credit		0	0	0	160	350	440	950	0	0	0	0	50	120	150	320

**Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND
INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued**
(In millions of dollars)

	Corporations								Individuals							
	2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19
Natural resources and environment:																
35 Expensing of exploration and development costs, nonfuel minerals	50	50	50	60	60	60	60	290	0	0	0	0	0	0	0	0
36 Excess of percentage over cost depletion, nonfuel minerals	540	540	550	560	570	580	590	2,850	40	50	40	40	40	40	50	210
37 Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	140	120	160	200	230	230	240	1,060	310	370	400	430	460	500	550	2,340
38 Capital gains treatment of certain timber income									90	80	90	110	120	120	130	570
39 Expensing of multiperiod timber growing costs	170	180	180	190	200	210	230	1,010	110	120	120	130	130	130	130	640
40 Tax incentives for preservation of historic structures	490	500	510	520	530	540	550	2,650	80	80	90	90	90	90	90	450
41 Industrial CO2 capture and sequestration tax credit	80	80	80	130	250	120	0	580	0	0	0	0	0	0	0	0
42 Deduction for endangered species recovery expenditures	10	10	10	10	10	10	10	50	10	10	10	20	20	20	20	90
Agriculture:																
43 Expensing of certain capital outlays	10	10	10	10	10	10	10	50	80	90	90	100	100	110	110	510
44 Expensing of certain multiperiod production costs	10	10	10	10	10	10	10	50	130	130	130	130	140	140	150	690
45 Treatment of loans forgiven for solvent farmers									40	40	40	40	40	40	40	200
46 Capital gains treatment of certain income									920	800	920	1,060	1,160	1,230	1,280	5,650
47 Income averaging for farmers									130	130	130	140	140	140	140	690
48 Deferral of gain on sale of farm refiners	20	20	20	20	20	20	20	100	0	0	0	0	0	0	0	0
49 Expensing of reforestation expenditures	20	20	20	20	20	30	30	120	50	50	50	60	60	60	70	300
Commerce and housing:																
Financial institutions and insurance:																
50 Exemption of credit union income	2,000	2,070	1,970	2,370	2,700	2,770	3,000	12,810								
51 Exclusion of interest on life insurance savings	3,210	3,710	4,100	4,270	4,520	4,820	5,010	22,720	15,720	17,560	18,940	20,420	21,850	23,360	25,080	109,650
52 Special alternative tax on small property and casualty insurance companies ...	10	10	10	10	20	20	20	80								
53 Tax exemption of certain insurance companies owned by tax-exempt organizations	600	660	690	730	760	790	830	3,800								
54 Small life insurance company deduction	30	30	40	40	40	40	40	200								
55 Exclusion of interest spread of financial institutions	0	0	0	0	0	0	0	0	210	1,260	1,840	1,940	2,030	2,130	2,230	10,170
Housing:																
56 Exclusion of interest on owner-occupied mortgage subsidy bonds	380	340	430	540	620	630	650	2,870	850	1,020	1,080	1,160	1,260	1,370	1,490	6,360
57 Exclusion of interest on rental housing bonds	310	270	350	440	500	520	530	2,340	690	820	880	950	1,020	1,120	1,220	5,190
58 Deductibility of mortgage interest on owner-occupied homes									69,020	70,370	73,910	79,830	89,150	100,600	112,840	456,330
59 Deductibility of State and local property tax on owner-occupied homes									29,290	31,740	33,880	36,570	39,600	42,730	45,770	198,550
60 Deferral of income from installment sales									1,140	1,330	1,470	1,630	1,760	1,860	1,950	8,670
61 Capital gains exclusion on home sales ..									34,270	52,250	56,510	61,110	66,090	71,480	77,300	332,490
62 Exclusion of net imputed rental income ..									72,440	76,220	79,810	83,470	87,900	92,570	97,488	441,238
63 Exception from passive loss rules for \$25,000 of rental loss									8,660	9,820	10,360	10,910	11,550	12,240	12,810	57,870
64 Credit for low-income housing investments	7,040	7,890	7,870	7,910	8,290	8,630	8,950	41,650	370	420	410	420	440	450	470	2,190
65 Accelerated depreciation on rental housing (normal tax method)	300	340	410	500	600	710	830	3,050	1,480	1,750	2,090	2,520	2,960	3,420	3,880	14,870
66 Discharge of mortgage indebtedness									3,360	870	0	0	0	0	0	0

Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued
(In millions of dollars)

		Corporations								Individuals							
		2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19
Commerce:																	
67	Discharge of business indebtedness									0	-60	-80	-80	-60	-20	20	-220
68	Exceptions from imputed interest rules									20	30	40	40	50	50	60	240
69	Treatment of qualified dividends									23,650	23,840	26,650	28,580	30,040	31,290	32,390	148,950
70	Capital gains (except agriculture, timber, iron ore, and coal)									68,860	60,030	68,850	79,300	86,950	91,550	95,620	422,270
71	Capital gains exclusion of small corporation stock									140	340	480	640	850	1,000	1,010	3,980
72	Step-up basis of capital gains at death ...									23,050	30,780	32,370	34,010	35,750	37,600	39,580	179,310
73	Carryover basis of capital gains on gifts ...									2,870	2,290	2,560	2,810	3,060	3,260	3,400	15,090
74	Ordinary income treatment of loss from small business corporation stock sale									60	60	60	60	60	60	60	300
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	-3,450	-3,340	-3,340	-3,440	-3,610	-3,840	-4,230	-18,460	-4,200	-4,230	-4,200	-4,250	-4,360	-4,510	-4,760	-22,080
76	Accelerated depreciation of machinery and equipment (normal tax method) ..	32,680	8,330	8,090	22,270	34,580	46,660	58,110	169,710	15,780	6,970	7,380	13,370	18,280	22,640	26,310	87,980
77	Expensing of certain small investments (normal tax method)	570	-260	-390	-160	-10	110	200	-250	3,380	-920	-1,650	-410	390	970	1,370	670
78	Graduated corporation income tax rate (normal tax method)	4,300	4,200	4,130	4,100	4,220	4,200	4,370	21,020								
79	Exclusion of interest on small issue bonds	50	50	60	70	80	90	90	390	120	140	150	160	170	190	200	870
80	Deduction for US production activities	9,730	10,430	10,950	11,500	11,980	12,720	12,220	59,370	3,130	3,360	3,530	3,700	3,860	4,100	3,930	19,120
81	Special rules for certain film and TV production	230	167	100	60	30	10	0	200	60	40	20	20	10	0	0	50
Transportation:																	
82	Tonnage tax	60	70	70	70	80	80	90	520								
83	Deferral of tax on shipping companies	20	20	20	20	20	20	20	100								
84	Exclusion of reimbursed employee parking expenses									2,580	2,670	2,780	2,900	3,010	3,110	3,220	15,020
85	Exclusion for employer-provided transit passes									710	710	710	770	810	860	920	4,070
86	Tax credit for certain expenditures for maintaining railroad tracks	100	50	0	0	0	0	0	0	20	10	0	0	0	0	0	0
87	Exclusion of interest on bonds for Highway Projects and rail-truck transfer facilities .	60	60	50	50	50	50	40	240	180	170	170	160	150	140	130	750
Community and regional development:																	
88	Investment credit for rehabilitation of structures (other than historic)	10	10	10	10	10	10	10	50	20	20	20	20	20	20	20	100
89	Exclusion of interest for airport, dock, and similar bonds	230	200	260	330	370	380	400	1,740	510	620	660	700	760	830	900	3,850
90	Exemption of certain mutuals' and cooperatives' income	110	120	120	120	130	130	130	630								
91	Empowerment zones, the DC enterprise zone, and renewal communities	180	100	50	50	50	50	40	240	270	250	150	140	140	130	110	670
92	New markets tax credit	930	990	1,020	1,030	940	730	550	4,270	20	20	20	20	20	20	10	90
93	Expensing of environmental remediation costs	-150	-150	-140	-130	-130	-130	-130	-660	-30	-30	-30	-30	-30	-30	-30	-150
94	Credit to holders of Gulf Tax Credit Bonds. ...	70	60	80	100	110	110	120	520	150	180	200	210	230	250	270	1,160
95	Recovery Zone Bonds ⁶	40	30	40	50	60	60	60	270	80	100	110	110	120	130	150	620
96	Tribal Economic Development Bonds	10	10	10	20	20	20	20	90	10	30	30	40	40	40	40	190
Education, training, employment, and social services:																	
Education:																	
97	Exclusion of scholarship and fellowship income (normal tax method)									2,890	2,980	3,090	3,200	3,310	3,420	3,550	16,570
98	HOPE tax credit									0	0	0	0	0	720	7,230	7,950
99	Lifetime Learning tax credit									1,810	1,680	1,720	1,740	1,740	1,880	3,100	10,180
100	American Opportunity Tax Credit ⁷									12,540	15,530	15,240	15,310	15,370	13,760	0	59,680

**Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND
INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued**
(In millions of dollars)

		Corporations								Individuals							
		2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19
101	Education Individual Retirement Accounts									70	80	100	110	120	130	150	610
102	Deductibility of student-loan interest									1,720	1,720	1,780	1,780	1,790	1,790	1,840	8,980
103	Deduction for higher education expenses									600	560	0	0	0	0	0	0
104	Qualified tuition programs									1,680	1,770	1,900	2,050	2,200	2,350	2,520	11,020
105	Exclusion of interest on student-loan bonds	160	140	180	220	250	260	270	1,180	350	420	440	480	510	560	610	2,600
106	Exclusion of interest on bonds for private nonprofit educational facilities	690	610	780	990	1,130	1,160	1,200	5,260	1,550	1,870	1,980	2,130	2,300	2,500	2,730	11,640
107	Credit for holders of zone academy bonds ⁸	200	180	160	130	120	110	100	620								
108	Exclusion of interest on savings bonds redeemed to finance educational expenses									10	10	10	20	20	20	20	90
109	Parental personal exemption for students age 19 or over									5,200	5,320	5,400	5,490	5,570	5,660	5,760	27,880
110	Deductibility of charitable contributions (education)	730	780	830	870	920	960	990	4,570	3,820	4,260	4,540	4,940	5,370	5,820	6,300	26,970
111	Exclusion of employer-provided educational assistance									710	750	800	850	900	950	1,000	4,500
112	Special deduction for teacher expenses ...									190	170	0	0	0	0	0	0
113	Discharge of student loan indebtedness									90	90	90	90	100	100	100	480
114	Qualified school construction bonds ⁹	150	160	160	160	160	160	160	800	430	490	490	490	490	490	490	2,450
Training, employment, and social services:																	
115	Work opportunity tax credit	670	610	300	160	130	110	80	780	230	270	160	90	70	60	50	430
116	Employer provided child care exclusion ...									880	920	970	1,040	1,110	1,170	1,240	5,530
117	Employer-provided child care credit	10	10	10	10	10	10	10	50								
118	Assistance for adopted foster children									530	530	560	590	620	660	700	3,130
119	Adoption credit and exclusion ¹⁰									450	540	580	600	640	730	660	3,210
120	Exclusion of employee meals and lodging (other than military)									2,185	3,700	3,797	3,910	4,032	4,155	4,278	20,172
121	Child credit ¹¹									23,480	23,350	23,500	23,620	23,480	23,450	23,480	117,530
122	Credit for child and dependent care expenses									4,160	4,200	4,310	4,460	4,590	4,690	4,760	22,810
123	Credit for disabled access expenditures ...	10	10	10	10	10	20	20	70	20	20	20	20	20	20	20	100
124	Deductibility of charitable contributions, other than education and health	1,590	1,670	1,740	1,830	1,900	1,970	2,050	9,490	37,670	41,930	44,890	48,770	53,040	57,420	62,200	266,320
125	Exclusion of certain foster care payments									380	380	390	380	370	370	360	1,870
126	Exclusion of parsonage allowances									737	720	758	798	840	885	931	4,212
127	Indian employment credit	30	20	10	10	10	0	0	30	20	20	10	10	10	10	10	50
Health:																	
128	Exclusion of employer contributions for medical insurance premiums and medical care ¹²									185,330	196,010	207,200	217,140	229,000	241,070	256,290	1,150,700
129	Self-employed medical insurance premiums									6,140	6,670	6,970	7,240	7,550	7,870	8,170	37,800
130	Medical Savings Accounts / Health Savings Accounts									3,110	3,900	4,890	6,110	7,630	9,440	11,720	39,790
131	Deductibility of medical expenses									8,010	8,090	8,560	8,910	8,840	9,370	10,510	46,190
132	Exclusion of interest on hospital construction bonds	1,060	940	1,190	1,500	1,720	1,760	1,820	7,990	2,370	2,850	3,020	3,240	3,500	3,810	4,150	17,720
133	Refundable Premium Assistance Tax Credit ¹³									0	0	-3,940	-4,060	-5,740	-6,290	-6,540	-26,570
134	Credit for employee health insurance expenses of small business ¹⁴	190	280	460	470	430	250	170	1,780	440	590	590	570	330	220	160	1,870
135	Deductibility of charitable contributions (health)	210	230	240	250	260	280	300	1,330	4,260	4,750	5,110	5,570	6,080	6,600	7,160	30,520
136	Tax credit for orphan drug research	1,040	1,260	1,520	1,830	2,210	2,660	3,210	11,430								
137	Special Blue Cross/Blue Shield deduction .	190	230	360	430	480	440	370	2,080								

**Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND
INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued**
(In millions of dollars)

		Corporations								Individuals							
		2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19
138	Tax credit for health insurance purchased by certain displaced and retired individuals ¹⁵									10	0	0	0	0	0	0	0
139	Distributions from retirement plans for premiums for health and long-term care insurance									320	360	400	440	460	480	500	2,280
Income security:																	
140	Exclusion of railroad retirement system benefits									380	370	360	350	320	300	270	1,600
141	Exclusion of workers' compensation benefits									10,090	10,310	10,500	10,640	10,790	10,950	11,100	53,980
142	Exclusion of public assistance benefits (normal tax method)									770	790	820	860	900	940	980	4,500
143	Exclusion of special benefits for disabled coal miners									30	30	30	20	20	20	20	110
144	Exclusion of military disability pensions Net exclusion of pension contributions and earnings:									110	110	110	110	110	110	110	550
145	Defined benefit employer plans									37,860	40,090	42,340	44,750	47,270	49,160	51,440	234,960
146	Defined contribution employer plans									50,670	59,380	61,050	77,020	88,740	92,770	94,820	414,400
147	Individual Retirement Accounts									19,310	17,450	17,480	18,540	19,630	20,650	21,720	98,020
148	Low and moderate income savers credit ...									1,190	1,200	1,210	1,260	1,300	1,280	1,300	6,350
149	Self-Employed plans									19,400	23,300	25,530	28,100	30,890	33,860	37,150	155,530
Exclusion of other employee benefits:																	
150	Premiums on group term life insurance									1,910	1,940	1,980	2,030	2,080	2,130	2,180	10,400
151	Premiums on accident and disability insurance									310	310	310	320	320	330	330	1,610
152	Income of trusts to finance supplementary unemployment benefits									20	20	30	40	40	50	60	220
153	Special ESOP rules	1,550	1,630	1,710	1,800	1,890	1,980	2,080	9,460	100	100	100	110	110	110	120	550
154	Additional deduction for the blind									30	30	30	30	40	40	40	180
155	Additional deduction for the elderly									2,380	2,560	2,800	3,040	3,310	3,610	3,850	16,610
156	Tax credit for the elderly and disabled									10	10	10	10	10	10	10	50
157	Deductibility of casualty losses									310	340	360	380	400	420	430	1,990
158	Earned income tax credit ¹⁶									4,070	4,330	4,330	4,400	4,520	4,640	4,550	22,440
Social Security:																	
Exclusion of social security benefits:																	
159	Social Security benefits for retired workers									26,440	28,730	29,840	30,900	31,920	33,010	34,260	159,930
160	Social Security benefits for disabled workers									8,200	8,560	8,740	8,930	9,100	9,250	9,420	45,440
161	Social Security benefits for spouses, dependents and survivors									3,760	3,970	4,100	4,300	4,470	4,540	4,740	22,150
Veterans benefits and services:																	
162	Exclusion of veterans death benefits and disability compensation									4,620	5,080	5,490	5,980	6,500	7,080	7,700	32,750
163	Exclusion of veterans pensions									410	430	450	470	480	490	510	2,400
164	Exclusion of GI bill benefits									980	1,110	1,160	1,240	1,320	1,410	1,500	6,630
165	Exclusion of interest on veterans housing bonds	0	0	10	10	10	10	10	50	10	10	10	10	20	20	20	80
General purpose fiscal assistance:																	
166	Exclusion of interest on public purpose State and local bonds	8,780	7,780	9,930	12,490	14,330	14,640	15,140	66,530	19,660	23,670	25,080	26,930	29,070	31,700	34,520	147,300
167	Build America Bonds ¹⁷	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes									44,020	46,710	49,290	53,450	58,120	62,800	67,140	290,800

Table 14-2. ESTIMATES OF TAX EXPENDITURES FOR THE CORPORATE AND INDIVIDUAL INCOME TAXES FOR FISCAL YEARS 2013-2019—Continued
(In millions of dollars)

	Corporations								Individuals							
	2013	2014	2015	2016	2017	2018	2019	2015-19	2013	2014	2015	2016	2017	2018	2019	2015-19
Interest:																
169 Deferral of interest on U.S. savings bonds ...									1,020	1,080	1,090	1,100	1,120	1,130	1,140	5,580
Addendum: Aid to State and local governments:																
Deductibility of:																
Property taxes on owner-occupied homes									29,290	31,740	33,880	36,570	39,600	42,730	45,770	198,550
Nonbusiness State and local taxes other than on owner-occupied homes									44,020	46,710	49,290	53,450	58,120	62,800	67,140	290,800
Exclusion of interest on State and local bonds for:																
Public purposes	8,780	7,780	9,930	12,490	14,330	14,640	15,140	66,530	19,660	23,670	25,080	26,930	29,070	31,700	34,520	147,300
Energy facilities	10	10	10	10	10	10	10	50	10	20	20	20	20	20	20	100
Water, sewage, and hazardous waste disposal facilities	140	120	160	200	230	230	240	1,060	310	370	400	430	460	500	550	2,340
Small-issues	50	50	60	70	80	90	90	390	120	140	150	160	170	190	200	870
Owner-occupied mortgage subsidies	380	340	430	540	620	630	650	2,870	850	1,020	1,080	1,160	1,260	1,370	1,490	6,360
Rental housing	310	270	350	440	500	520	530	2,340	690	820	880	950	1,020	1,120	1,220	5,190
Airports, docks, and similar facilities	230	200	260	330	370	380	400	1,740	510	620	660	700	760	830	900	3,850
Student loans	160	140	180	220	250	260	270	1,180	350	420	440	480	510	560	610	2,600
Private nonprofit educational facilities	690	610	780	990	1,130	1,160	1,200	5,260	1,550	1,870	1,980	2,130	2,300	2,500	2,730	11,640
Hospital construction	1,060	940	1,190	1,500	1,720	1,760	1,820	7,990	2,370	2,850	3,020	3,240	3,500	3,810	4,150	17,720
Veterans' housing	0	0	10	10	10	10	10	50	10	10	10	10	20	20	20	80

¹ Firms can tax an energy grant in lieu of the energy production credit or the energy investment credit for facilities placed in service in 2009 and 2010 or whose construction commenced in 2009 and 2010. The effect of the grant on outlays (in millions of dollars) is as follows: 2013 \$8,080; 2014 \$4,710; 2015 \$2,520; 2016 \$1,580; 2017 \$330; 2018 \$0; 2019 \$0.

² In addition, the alcohol fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$10; 2014 \$0; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0. The alternative fuel mixture credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$350; 2014 \$200; 2015 \$0; 2016 \$0; 2017 \$0; 2018 \$0; 2019 \$0.

³ In addition, the biodiesel producer tax credit results in a reduction in excise tax receipts (in millions of dollars) as follows: 2013 \$1600; 2014 \$610; 2015 \$0; 2016 \$0; 2017 \$0; 2018: \$0; 2019 \$0.

⁴ In addition, the provision has outlay effects of (in millions of dollars): 2013 \$40; 2014 \$50; 2015 \$50; 2016 \$50; 2017 \$50; 2018 \$50; 2019 \$50.

⁵ In addition, the provision has outlay effects of (in millions of dollars): 2013 \$50; 2014 \$60; 2015 \$60; 2016 \$60; 2017 \$60; 2018 \$60; 2019 \$60.

⁶ In addition, recovery zone bonds have outlay effects (in millions of dollars) as follows: 2013 \$150; 2014 \$140; 2015 \$150; 2016 \$150; and 2017 \$150; 2018 \$150; 2019 \$150.

⁷ The figures in the table indicate the effect of the American opportunity tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$4,040; 2014 \$6,170; 2015 \$6,280; 2016 \$6,280; 2017 \$6,090; 2018 \$5,970; 2019 \$2,680.

⁸ In addition, the credit for holders of zone academy bonds has outlay effects of (in millions of dollars): 2013 \$20; 2014 \$30; 2015 \$30; 2016 \$30; 2017 \$30; 2018 \$30; and 2019 \$30.

⁹ In addition, the provision for school construction bonds has outlay effects of (in millions of dollars): 2013 \$900; 2014 \$840; 2015 \$900; 2016 \$900; 2017 \$900; 2018 \$900; and 2019 \$900.

¹⁰ The figures in the table indicate the effect of the adoption tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$0.

¹¹ The figures in the table indicate the effect of the child tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$21,660; 2014 \$21,680; 2015 \$21,700; 2016 \$21,600; 2017 \$21,680; 2018 \$21,930; and 2019 \$15,790.

¹² The figures in the table indicate the effect on income taxes of the employer contributions for health. In addition, the effect on payroll tax receipts (in millions of dollars) is as follows: 2013 \$117,920; 2014 \$122,990; 2015 \$127,980; 2016 \$132,400; 2017 \$138,330; 2018 \$145,270; 2019 \$153,870.

¹³ In addition, the premium assistance credit provision has outlay effects (in millions of dollars) as follows: 2014 \$34,020; 2015 \$55,140; 2016 \$70,610; 2017 \$82,150; 2018 \$86,460; 2019 \$90,600.

¹⁴ In addition, the small business credit provision has outlay effects (in millions of dollars) as follows: 2013 \$80; 2014 \$100; 2015 \$110; 2016 \$120; 2017 \$110; 2018 \$70; 2019 \$50.

¹⁵ The figures in the table indicate the effect of the health coverage tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$120; 2014 \$30; 2015 \$0;

¹⁶ The figures in the table indicate the effect of the earned income tax credit on receipts. The effect of the credit on outlays (in millions of dollars) is as follows: 2013 \$56,760; 2014 \$58,430; 2015 \$58,070; 2016 \$58,360; 2017 \$59,500; 2018 \$60,900; and 2019 \$59,330.

¹⁷ In addition, Build America Bonds have outlay effects of (in millions of dollars): 2013 \$3,060; 2014 \$2,840; 2015 \$3,060; 2016 \$3,060; 2017 \$3,060; 2018 \$3,060; and 2019 \$3060.

Note: Provisions with estimates denoted normal tax method have no revenue loss under the reference tax law method.

All estimates have been rounded to the nearest \$10 million. Provisions with estimates that rounded to zero in each year are not included in the table.

Table 14-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2015-2019 PROJECTED REVENUE EFFECT

(In millions of dollars)

	Provision	2015	2015-19
128	Exclusion of employer contributions for medical insurance premiums and medical care	207,200	1,150,700
58	Deductibility of mortgage interest on owner-occupied homes	73,910	456,330
62	Exclusion of net imputed rental income	79,810	441,238
70	Capital gains (except agriculture, timber, iron ore, and coal)	68,850	422,270
146	Defined contribution employer plans	61,050	414,400
5	Deferral of income from controlled foreign corporations (normal tax method)	75,540	373,210
61	Capital gains exclusion on home sales	56,510	332,490
168	Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	49,290	290,800
124	Deductibility of charitable contributions, other than education and health	46,630	275,810
76	Accelerated depreciation of machinery and equipment (normal tax method)	15,470	257,690
145	Defined benefit employer plans	42,340	234,960
166	Exclusion of interest on public purpose State and local bonds	35,010	213,830
59	Deductibility of State and local property tax on owner-occupied homes	33,880	198,550
72	Step-up basis of capital gains at death	32,370	179,310
159	Social Security benefits for retired workers	29,840	159,930
149	Self-Employed plans	25,530	155,530
69	Treatment of qualified dividends	26,650	148,950
51	Exclusion of interest on life insurance savings	23,040	132,370
121	Child credit	23,500	117,530
147	Individual Retirement Accounts	17,480	98,020
80	Deduction for US production activities	14,480	78,490
1	Exclusion of benefits and allowances to armed forces personnel	13,230	63,710
100	Lifetime Learning tax credit	15,240	59,680
63	Exception from passive loss rules for \$25,000 of rental loss	10,360	57,870
141	Exclusion of workers' compensation benefits	10,500	53,980
131	Deductibility of medical expenses	8,560	46,190
160	Social Security benefits for disabled workers	8,740	45,440
64	Credit for low-income housing investments	8,280	43,840
130	Medical Savings Accounts / Health Savings Accounts	4,890	39,790
129	Self-employed medical insurance premiums	6,970	37,800
162	Exclusion of veterans death benefits and disability compensation	5,490	32,750
135	Deductibility of charitable contributions (health)	5,350	31,850
110	Deductibility of charitable contributions (education)	5,370	31,540
7	Expensing of research and experimentation expenditures (normal tax method)	4,800	30,680
109	Parental personal exemption for students age 19 or over	5,400	27,880
132	Exclusion of interest on hospital construction bonds	4,210	25,710
2	Exclusion of income earned abroad by U.S. citizens	4,350	23,740
4	Inventory property sales source rules exception	3,890	22,962
122	Credit for child and dependent care expenses	4,310	22,810
158	Earned income tax credit	4,330	22,440
161	Social Security benefits for spouses, dependents and survivors	4,100	22,150
78	Graduated corporation income tax rate (normal tax method)	4,130	21,020
120	Exclusion of employee meals and lodging (other than military)	3,797	20,172
65	Accelerated depreciation on rental housing (normal tax method)	2,500	17,920
106	Exclusion of interest on bonds for private nonprofit educational facilities	2,760	16,900
155	Additional deduction for the elderly	2,800	16,610
97	Exclusion of scholarship and fellowship income (normal tax method)	3,090	16,570
15	New technology credit	3,000	16,040
73	Carryover basis of capital gains on gifts	2,560	15,090
84	Exclusion of reimbursed employee parking expenses	2,780	15,020
8	Credit for increasing research activities	3,170	12,930
50	Exemption of credit union income	1,970	12,810
136	Tax credit for orphan drug research	1,520	11,430
104	Qualified Tuition Programs	1,900	11,020
150	Premiums on group term life insurance	1,980	10,400
99	Lifetime Learning tax credit	1,720	10,180
55	Exclusion of interest spread of financial institutions	1,840	10,170
153	Special ESOP rules	1,810	10,010
56	Exclusion of interest on owner-occupied mortgage subsidy bonds	1,510	9,230

Table 14-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2015-2019 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2015	2015-19
102	Deductibility of student-loan interest	1,780	8,980
60	Deferral of income from installment sales	1,470	8,670
98	HOPE tax credit	0	7,950
57	Exclusion of interest on rental housing bonds	1,230	7,530
3	Exclusion of certain allowances for Federal employees abroad	1,220	6,730
164	Exclusion of GI bill benefits	1,160	6,630
148	Low and moderate income savers credit	1,210	6,350
46	Capital gains treatment of certain income	920	5,650
89	Exclusion of interest for airport, dock, and similar bonds	920	5,590
169	Deferral of interest on U.S. savings bonds	1,090	5,580
116	Employer provided child care exclusion	970	5,530
10	Excess of percentage over cost depletion, fuels	780	5,390
142	Exclusion of public assistance benefits (normal tax method)	820	4,500
111	Exclusion of employer-provided educational assistance	800	4,500
92	New markets tax credit	1,040	4,360
126	Exclusion of parsonage allowances	758	4,212
85	Exclusion for employer-provided transit passes	710	4,070
71	Capital gains exclusion of small corporation stock	480	3,980
16	Energy investment credit	1,470	3,900
53	Tax exemption of certain insurance companies owned by tax-exempt organizations	690	3,800
105	Exclusion of interest on student-loan bonds	620	3,780
134	Credit for employee health insurance expenses of small business.	1,050	3,650
37	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	560	3,400
114	Qualified school construction bonds	650	3,250
119	Adoption credit and exclusion	580	3,210
118	Assistance for adopted foster children	560	3,130
40	Tax incentives for preservation of historic structures	600	3,100
36	Excess of percentage over cost depletion, nonfuel minerals	590	3,060
31	30% credit for residential purchases/installations of solar and fuel cells	1,170	3,010
9	Expensing of exploration and development costs, fuels	510	2,770
19	Tax credits for clean-fuel burning vehicles	670	2,550
163	Exclusion of veterans pensions	450	2,400
139	Distributions from retirement plans for premiums for health and long-term care insurance	400	2,280
137	Special Blue Cross/Blue Shield deduction	360	2,080
157	Deductibility of casualty losses	360	1,990
125	Exclusion of certain foster care payments	390	1,870
94	Credit to holders of Gulf Tax Credit Bonds.	280	1,680
39	Expensing of multiperiod timber growing costs	300	1,650
20	Exclusion of utility conservation subsidies	340	1,640
151	Premiums on accident and disability insurance	310	1,610
140	Exclusion of railroad retirement system benefits	360	1,600
34	Advanced nuclear power production credit	0	1,270
79	Exclusion of interest on small issue bonds	210	1,260
115	Work opportunity tax credit	460	1,210
87	Exclusion of interest on bonds for Financing of Highway Projects and rail-truck transfer facilities	220	990
91	Empowerment zones, Enterprise communities, and Renewal communities	200	910
95	Recovery Zone Bonds	150	890
44	Expensing of certain multiperiod production costs	140	740
47	Income averaging for farmers	130	690
90	Exemption of certain mutuals' and cooperatives' income	120	630
107	Credit for holders of zone academy bonds	160	620
101	Education Individual Retirement Accounts	100	610
41	Industrial CO2 capture and sequestration tax credit	80	580
26	Amortize all geological and geophysical expenditures over 2 years	130	580
38	Capital gains treatment of certain timber income	90	570
13	Capital gains treatment of royalties on coal	90	570
43	Expensing of certain capital outlays	100	560
25	Natural gas distribution pipelines treated as 15-year property	100	560
144	Exclusion of military disability pensions	110	550

Table 14-3. INCOME TAX EXPENDITURES RANKED BY TOTAL FISCAL YEAR 2015-2019 PROJECTED REVENUE EFFECT—Continued
(In millions of dollars)

	Provision	2015	2015-19
82	Tonnage tax	70	520
113	Discharge of student loan indebtedness	90	480
77	Expensing of certain small investments (normal tax method)	-2,040	420
49	Expensing of reforestation expenditures	70	420
21	Credit for holding clean renewable energy bonds	70	350
74	Ordinary income treatment of loss from small business corporation stock sale	60	300
35	Expensing of exploration and development costs, nonfuel minerals	50	290
96	Tribal Economic Development Bonds	40	280
81	Special rules for certain film and TV production	120	250
68	Exceptions from imputed interest rules	40	240
152	Income of trusts to finance supplementary unemployment benefits	30	220
30	Credit for energy efficient appliances	120	220
54	Small life insurance company deduction	40	200
45	Treatment of loans forgiven for solvent farmers	40	200
154	Additional deduction for the blind	30	180
23	Credit for investment in clean coal facilities	140	180
123	Credit for disabled access expenditures	30	170
88	Investment credit for rehabilitation of structures (other than historic)	30	150
32	Qualified energy conservation bonds	30	150
14	Exclusion of interest on energy facility bonds	30	150
42	Deduction for endangered species recovery expenditures	20	140
165	Exclusion of interest on veterans housing bonds	20	130
143	Exclusion of special benefits for disabled coal miners	30	110
83	Deferral of tax on shipping companies	20	100
48	Deferral of gain on sale of farm refiners	20	100
12	Exception from passive loss limitation for working interests in oil and gas properties	20	100
108	Exclusion of interest on savings bonds redeemed to finance educational expenses	10	90
127	Indian employment credit	20	80
52	Special alternative tax on small property and casualty insurance companies	10	80
28	Credit for construction of new energy efficient homes	60	80
33	Advanced Energy Property Credit	90	70
156	Tax credit for the elderly and disabled	10	50
117	Employer-provided child care credit	10	50
17	Alcohol fuel credits	10	10
167	Build America Bonds	0	0
138	Tax credit for health insurance purchased by certain displaced and retired individuals	0	0
112	Special deduction for teacher expenses	0	0
103	Deduction for higher education expenses	0	0
86	Tax credit for certain expenditures for maintaining railroad tracks	0	0
66	Discharge of mortgage indebtedness	0	0
29	Credit for energy efficiency improvements to existing homes	0	0
18	Bio-Diesel and small agri-biodiesel producer tax credits	0	0
11	Alternative fuel production credit	0	0
6	Deferred taxes for financial firms on certain income earned overseas	0	0
27	Allowance of deduction for certain energy efficient commercial building property	20	-20
67	Discharge of business indebtedness	-80	-220
93	Expensing of environmental remediation costs	-170	-810
22	Deferral of gain from dispositions of transmission property to implement FERC restructuring policy	-220	-950
24	Temporary 50% expensing for equipment used in the refining of liquid fuels	-700	-3,860
133	Refundable Premium Assistance Tax Credit	-3,940	-26,570
75	Accelerated depreciation of buildings other than rental housing (normal tax method)	-7,540	-40,540

Table 14-4. PRESENT VALUE OF SELECTED TAX EXPENDITURES FOR ACTIVITY IN CALENDAR YEAR 2013

(In millions of dollars)

	Provision	2013 Present Value of Revenue Loss
5	Deferral of income from controlled foreign corporations (normal tax method)	36,010
7	Expensing of research and experimentation expenditures (normal tax method)	2,310
21	Credit for holding clean renewable energy bonds	310
9	Expensing of exploration and development costs - fuels	320
35	Expensing of exploration and development costs - nonfuels	50
39	Expensing of multiperiod timber growing costs	120
44	Expensing of certain multiperiod production costs - agriculture	0
43	Expensing of certain capital outlays - agriculture	0
49	Expensing of reforestation expenditures	30
51	Deferral of income on life insurance and annuity contracts	16,860
65	Accelerated depreciation on rental housing	5,100
75	Accelerated depreciation of buildings other than rental	-15,030
76	Accelerated depreciation of machinery and equipment	16,160
77	Expensing of certain small investments (normal tax method)	500
107	Credit for holders of zone academy bonds	160
64	Credit for low-income housing investments	6,780
104	Deferral for state prepaid tuition plans	3,070
145	Defined benefit employer plans	21,890
146	Defined contribution employer plans	66,610
147	Exclusion of IRA contributions and earnings	1,660
147	Exclusion of Roth earnings and distributions	3,400
147	Exclusion of non-deductible IRA earnings	150
149	Exclusion of contributions and earnings for Self-Employed plans	3,230
166	Exclusion of interest on public-purpose bonds	12,240
	Exclusion of interest on non-public purpose bonds	3,980
169	Deferral of interest on U.S. savings bonds	220

adjust the cost basis of capital assets and debt for changes in the general price level. Thus, under a comprehensive income tax baseline, the failure to take account of inflation in measuring depreciation, capital gains, and interest income would be regarded as a negative tax expenditure (i.e., a tax penalty), and failure to take account of inflation in measuring interest costs would be regarded as a positive tax expenditure (i.e., a tax subsidy).

Although the reference law and normal tax baselines are generally similar, areas of difference include:

Tax rates. The separate schedules applying to the various taxpaying units are included in the reference law baseline. Thus, corporate tax rates below the maximum statutory rate do not give rise to a tax expenditure. The normal tax baseline is similar, except that, by convention, it specifies the current maximum rate as the baseline for the corporate income tax. The lower tax rates applied to the first \$10 million of corporate income are thus regarded as a tax expenditure under the normal tax. By convention, the Alternative Minimum Tax is treated as part of the baseline rate structure under both the reference and normal tax methods.

Income subject to the tax. Income subject to tax is defined as gross income less the costs of earning that in-

come. Under the reference tax rules, gross income does not include gifts defined as receipts of money or property that are not consideration in an exchange nor does gross income include most transfer payments from the Government.² The normal tax baseline also excludes gifts between individuals from gross income. Under the normal tax baseline, however, all cash transfer payments from the Government to private individuals are counted in gross income, and exemptions of such transfers from tax are identified as tax expenditures. The costs of earning income are generally deductible in determining taxable income under both the reference and normal tax baselines.³

Capital recovery. Under the reference tax law baseline no tax expenditures arise from accelerated depreciation. Under the normal tax baseline, the depreciation allow-

² Gross income does, however, include transfer payments associated with past employment, such as Social Security benefits.

³ In the case of individuals who hold "passive" equity interests in businesses, the pro-rata shares of sales and expense deductions reportable in a year are limited. A passive business activity is defined generally to be one in which the holder of the interest, usually a partnership interest, does not actively perform managerial or other participatory functions. The taxpayer may generally report no larger deductions for a year than will reduce taxable income from such activities to zero. Deductions in excess of the limitation may be taken in subsequent years, or when the interest is liquidated. In addition, costs of earning income may be limited under the Alternative Minimum Tax.

ance for property is computed using estimates of economic depreciation.

Treatment of foreign income. Both the normal and reference tax baselines allow a tax credit for foreign income taxes paid (up to the amount of U.S. income taxes that would otherwise be due), which prevents double taxation of income earned abroad. Under the normal tax method, however, controlled foreign corporations (CFCs) are not regarded as entities separate from their controlling U.S. shareholders. Thus, the deferral of tax on income received by CFCs is regarded as a tax expenditure under this method. In contrast, except for tax haven activities, the reference law baseline follows current law in treating CFCs as separate taxable entities whose income is not subject to U.S. tax until distributed to U.S. taxpayers. Under this baseline, deferral of tax on CFC income is not a tax expenditure because U.S. taxpayers generally are not taxed on accrued, but unrealized, income.

Descriptions of Income Tax Provisions

Descriptions of the individual and corporate income tax expenditures reported on in this chapter follow. These descriptions relate to current law as of December 31, 2013.

National Defense

1. Benefits and allowances to Armed Forces personnel.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. As an example, a rental voucher of \$100 is (approximately) equal in value to \$100 of cash income. In contrast to this treatment, certain housing and meals, in addition to other benefits provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

2. Income earned abroad.—Under the baseline tax system, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as a housing allowance. In contrast to this treatment, U.S. tax law allows U.S. citizens who live abroad, work in the private sector, and satisfy a foreign residency requirement to exclude up to \$80,000, plus adjustments for inflation since 2004 (\$97,600 in 2013), in foreign earned income from U.S. taxes. In addition, if these taxpayers receive a specific allowance for foreign housing from their employers, then they may also exclude such expenses to the extent that they do not exceed 30 percent of the earned income inclusion, with geographical adjustments, over 16 percent of the earned income limit. If taxpayers do not receive a specific allowance for housing expenses, they may deduct housing expenses up to the amount by which foreign earned income exceeds their foreign earned income exclusion.

3. Exclusion of certain allowances for Federal employees abroad.—In general, all compensation received by U.S. citizens is properly included in their taxable income. It makes no difference whether the compensation is a result of working abroad or whether it is labeled as an allowance for the high cost of living abroad. In contrast to this treatment, U.S. Federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income certain special allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses such as rent, education, and the cost of travel to and from the United States.

4. Sales source rule exceptions.—The United States generally taxes the worldwide income of U.S. persons and business entities. Under the baseline tax system, taxpayers receive a credit for foreign taxes paid which is limited to the pre-credit U.S. tax on the foreign source income. In contrast, the sales source rules for inventory property under current law allow U.S. exporters to use more foreign tax credits by allowing the exporters to attribute a larger portion of their earnings abroad than would be the case if the allocation of earnings was based on actual economic activity.

5. Income of U.S.-controlled foreign corporations.—Under the baseline tax system, the United States generally taxes the worldwide income of U.S. persons and business entities. In contrast, certain active income of foreign corporations controlled by U.S. shareholders is not subject to U.S. taxation when it is earned. The income becomes taxable only when the controlling U.S. shareholders receive dividends or other distributions from their foreign stockholding. The reference law tax baseline reflects this tax treatment where only realized income is taxed. Under the normal tax method, however, the currently attributable foreign source pre-tax income from such a controlling interest is considered to be subject to U.S. taxation, whether or not distributed. Thus, the normal tax method considers the amount of controlled foreign corporation income not yet distributed to a U.S. shareholder as tax-deferred income.

6. Exceptions under subpart F for active financing income.—The United States generally taxes the worldwide income of U.S. persons and business entities. The baseline tax system would not allow the deferral of tax or other relief targeted at particular industries or activities. In contrast, under current law, financial firms may defer taxes on income earned overseas in an active business. Under current law, this provision expires at the end of 2013.

General Science, Space, and Technology

7. Expensing R&E expenditures.—The baseline tax system allows a deduction for the cost of producing income. It requires taxpayers to capitalize the costs associated with investments over time to better match the streams of income and associated costs. Research and experimentation (R&E) projects can be viewed as invest-

ments because, if successful, their benefits accrue for several years. It is often difficult, however, to identify whether a specific R&E project is successful and, if successful, what its expected life will be. Because of this ambiguity, the reference law baseline tax system would allow of expensing of R&E expenditures. In contrast, under the normal tax method, the expensing of R&E expenditures is viewed as a tax expenditure. The baseline assumed for the normal tax method is that all R&E expenditures are successful and have an expected life of five years.

8. R&E credit.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows an R&E credit of 20 percent of qualified research expenditures in excess of a base amount.

The base amount of the credit is generally determined by multiplying a “fixed-base percentage” by the average amount of the company’s gross receipts for the prior four years. The taxpayer’s fixed base percentage generally is the ratio of its research expenses to gross receipts for 1984 through 1988. Taxpayers can elect the alternative simplified credit regime, which is equal to 14 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding taxable years. The credit does not apply to expenses paid or incurred after December 31, 2013.

Energy

9. Exploration and development costs.—Under the baseline tax system, the costs of exploring and developing oil and gas wells would be capitalized and then amortized (or depreciated) over an estimate of the economic life of the well. This insures that the net income from the well is measured appropriately each year.

In contrast to this treatment, current law allows intangible drilling costs for successful investments in domestic oil and gas wells (such as wages, the cost of using machinery for grading and drilling, and the cost of unsalvageable materials used in constructing wells) to be deducted immediately, i.e., expensed. Because it allows recovery of costs sooner, expensing is more generous for the taxpayer than would be amortization. Integrated oil companies may deduct only 70 percent of such costs and must amortize the remaining 30 percent over five years. The same rule applies to the exploration and development costs of surface stripping and the construction of shafts and tunnels for other fuel minerals.

10. Percentage depletion.—The baseline tax system would allow recovery of the costs of developing certain oil and mineral properties using cost depletion. Cost depletion is similar in concept to depreciation, in that the costs of developing or acquiring the asset are capitalized and then gradually reduced over an estimate of the asset’s productive life, as is appropriate for measuring net income.

In contrast, the Tax Code generally allows independent fuel and mineral producers and royalty owners to take percentage depletion deductions rather than cost depletion

on limited quantities of output. Under percentage depletion, taxpayers deduct a percentage of gross income from mineral production. In certain cases the deduction is limited to a fraction of the asset’s net income. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment’s cost.

11. Alternative fuel production credit.—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit of \$3 per oil-equivalent barrel of production (in 2004 dollars) for coke or coke gas during a four-year period for qualified facilities. Qualifying facilities producing coke and coke gas must be placed in service by December 31, 2009.

12. Oil and gas exception to passive loss limitation.—The baseline tax system accepts current law’s general rule limiting taxpayers’ ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate, and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income.

An exception from the passive loss limitation is provided for a working interest in an oil or gas property that the taxpayer holds directly or through an entity that does not limit the liability of the taxpayer with respect to the interest. Thus, taxpayers can deduct losses from such working interests against nonpassive income without regard to whether they materially participate in the activity.

13. Capital gains treatment of royalties on coal.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals in 2013, tax rates on regular income vary from 10 percent to 39.6 percent, depending on the taxpayer’s income. In contrast, current law allows capital gains realized by individuals to be taxed at a preferentially low rate that is no higher than 20 percent. Certain sales of coal under royalty contracts qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 20 percent maximum tax rate on capital gains.

14. Energy facility bonds.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of certain energy facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

15. **Energy production credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides a credit for certain electricity produced from wind energy, biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, or qualified hydropower and sold to an unrelated party. In addition to the electricity production credit, an income tax credit is allowed for the production of refined coal and Indian coal at qualified facilities.

16. **Energy investment credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code provides credits for investments in solar and geothermal energy property, qualified fuel cell power plants, stationary microturbine power plants, geothermal heat pumps, small wind property and combined heat and power property. Owners of renewable power facilities that qualify for the energy production credit may instead elect to take an energy investment credit.

17. **Alcohol fuel credits.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides an income tax credit for qualified cellulosic biofuel production. This provision expired on December 31, 2013.

18. **Bio-Diesel tax credit.**—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows an income tax credit for bio-diesel used or sold and for bio-diesel derived from virgin sources. In lieu of the bio-diesel credit, the taxpayer may claim a refundable excise tax credit. In addition, small agri-biodiesel producers are eligible for a separate income tax credit for ethanol production and a separate credit is available for qualified renewable diesel fuel mixtures. This provision expired on December 31, 2013.

19. **Tax credits for clean-fuel burning vehicles and refueling property.**—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a number of credits for certain types of vehicles and property. These are available for alternative fuel vehicle refueling property, fuel cell vehicles, plug-in electric-drive motor vehicles, and two- and three-wheeled plug-in electric vehicles.

20. **Exclusion of utility conservation subsidies.**—The baseline tax system generally takes a comprehensive view of taxable income that includes a wide variety of (measurable) accretions to wealth. In certain circumstances, public utilities offer rate subsidies to non-business customers who invest in energy conservation measures. These rate subsidies are equivalent to payments from the utility to its customer, and so represent

accretions to wealth, income, that would be taxable to the customer under the baseline tax system. In contrast, the Tax Code exempts these subsidies from the non-business customer's gross income.

21. **Credit to holders of clean renewable energy bonds.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides for the issuance of Clean Renewable Energy Bonds which entitles the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume authorized in 2009–2010 is \$2.4 billion. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable.

22. **Deferral of gain from dispositions of transmission property to implement FERC restructuring policy.**—The baseline tax system generally would tax gains from sale of property when realized. It would not allow an exception for particular activities or individuals. However, the Tax Code allows utilities to defer gains from the sale of their transmission assets to a FERC-approved independent transmission company. The sale of property must be made prior to January 1, 2013.

23. **Credit for investment in clean coal facilities.**—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides investment tax credits for clean coal facilities producing electricity and for industrial gasification combined cycle projects.

24. **Temporary 50 percent expensing for equipment used in the refining of liquid fuels.**—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over its economic life. However, the Tax Code provides for an accelerated recovery of the cost of certain investments in refineries by allowing partial expensing of the cost, thereby giving such investments a tax advantage.

25. **Natural gas distribution pipelines treated as 15-year property.**—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over its economic life. However, the Tax Code allows depreciation of natural gas distribution pipelines (placed in service between 2005 and 2011) over a 15 year period. These deductions are accelerated relative to deductions based on economic depreciation.

26. **Amortize all geological and geophysical expenditures over two years.**—The baseline tax system allows taxpayers to deduct the decline in the economic value of an investment over time. However, the Tax Code allows geological and geophysical expenditures incurred in connection with oil and gas exploration in the United States to be amortized over two years for non-integrated oil companies.

27. **Allowance of deduction for certain energy efficient commercial building property.**—The baseline tax system would not allow deductions in addition to nor-

mal depreciation allowances for particular investments in particular industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a deduction, per square foot, for certain energy efficient commercial buildings.

28. Credit for construction of new energy efficient homes.—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. However, the Tax Code allows contractors a tax credit of \$2,000 for the construction of a qualified new energy-efficient home that has an annual level of heating and cooling energy consumption at least 50 percent below the annual consumption of a comparable dwelling unit. The credit equals \$1,000 in the case of a new manufactured home that meets a 30 percent standard. This provision expired on December 31, 2013.

29. Credit for energy efficiency improvements to existing homes.—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax Code provides an investment tax credit for expenditures made on insulation, exterior windows, and doors that improve the energy efficiency of homes and meet certain standards. The Tax Code also provides a credit for purchases of advanced main air circulating fans, natural gas, propane, or oil furnaces or hot water boilers, and other qualified energy efficient property. This provision expired on December 31, 2013.

30. Credit for energy efficient appliances.—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides tax credits for the manufacture of efficient dishwashers, clothes washers, and refrigerators. The size of the credit depends on the efficiency of the appliance. This provision expired on December 31, 2013.

31. Credit for residential energy efficient property.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides a credit for the purchase of a qualified photovoltaic property and solar water heating property, as well as for fuel cell power plants, geothermal heat pumps and small wind property.

32. Credit for qualified energy conservation bonds.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code provides for the issuance of energy conservation bonds which entitle the bond holder to a Federal income tax credit in lieu of interest. The limit on the volume issued in 2009–2010 is \$3.2 billion. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable.

33. Advanced energy property credit.—The baseline tax system would not allow credits for particular activities, investments, or industries. However, the Tax

Code provides a 30 percent investment credit for property used in a qualified advanced energy manufacturing project. The Treasury Department may award up to \$2.3 billion in tax credits for qualified investments.

34. Advanced nuclear power facilities production credit.—The baseline tax system would not allow credits or deductions for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code allows a tax credit equal to 1.8 cents times the number of kilowatt hours of electricity produced at a qualifying advanced nuclear power facility. A taxpayer may claim no more than \$125 million per 1,000 MW of capacity. The Treasury Department may allocate up to 6,000 megawatts of credit-eligible capacity.

Natural Resources and Environment

35. Exploration and development costs.—The baseline tax system allows the taxpayer to deduct the depreciation of an asset according to the decline in its economic value over time. However, certain capital outlays associated with exploration and development of nonfuel minerals may be expensed rather than depreciated over the life of the asset.

36. Percentage depletion.—The baseline tax system allows the taxpayer to deduct the decline in the economic value of an investment over time. Under current law, however, most nonfuel mineral extractors may use percentage depletion (whereby the deduction is fixed as a percentage of revenue and can exceed total costs) rather than cost depletion, with percentage depletion rates ranging from 22 percent for sulfur to 5 percent for sand and gravel. Over the life of an investment, percentage depletion deductions can exceed the cost of the investment. Consequently, percentage depletion offers more generous tax treatment than would cost depletion, which would limit deductions to an investment's cost.

37. Sewage, water, solid and hazardous waste facility bonds.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance construction of sewage, water, or hazardous waste facilities to be exempt from tax. These bonds are generally subject to the State private-activity-bond annual volume cap.

38. Capital gains treatment of certain timber.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. However, under current law certain timber sales can be treated as a capital gain rather than ordinary income and therefore subject to the lower capital-gains tax rate. For individuals in 2013, tax rates on regular income vary from 10 percent to 39.6 percent, depending on the taxpayer's income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 20 percent.

39. *Expensing multi-period timber growing costs.*—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, most of the production costs of growing timber may be expensed under current law rather than capitalized and deducted when the timber is sold, thereby accelerating cost recovery.

40. *Historic preservation.*—The baseline tax system would not allow credits for particular activities, investments, or industries. However, expenditures to preserve and restore certified historic structures qualify for an investment tax credit of 20 percent under current law for certified rehabilitation activities. The taxpayer's recoverable basis must be reduced by the amount of the credit.

41. *Industrial CO₂ capture and sequestration tax credit.*—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. In contrast, the Tax Code allows a credit of \$20 per metric ton for qualified carbon dioxide captured at a qualified facility and disposed of in secure geological storage. In addition, the provision allows a credit of \$10 per metric ton of qualified carbon dioxide that is captured at a qualified facility and as a tertiary injectant in a qualified enhanced oil or natural gas recovery project.

42. *Deduction for endangered species recovery expenditures.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, under current law farmers can deduct up to 25 percent of their gross income for expenses incurred as a result of site and habitat improvement activities that will benefit endangered species on their farm land, in accordance with site specific management actions included in species recovery plans approved pursuant to the Endangered Species Act of 1973.

Agriculture

43. *Expensing certain capital outlays.*—The baseline tax system requires the taxpayer to capitalize costs associated with investment property. However, farmers may expense certain expenditures for feed and fertilizer as well as for soil and water conservation measures as well as other capital improvements under current law.

44. *Expensing multi-period livestock and crop production costs.*—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. However, the production of livestock and crops with a production period greater than two years (e.g., establishing orchards or constructing barns) is exempt from the uniform cost capitalization rules, thereby accelerating cost recovery.

45. *Loans forgiven solvent farmers.*—The baseline tax system requires debtors to include the amount of loan forgiveness as income or else reduce their recoverable basis in the property related to the loan. If the amount of forgiveness exceeds the basis, the excess forgiveness is taxable. However, for bankrupt debtors, the amount of

loan forgiveness reduces carryover losses, unused credits, and then basis, with the remainder of the forgiven debt excluded from taxation.

46. *Capital gains treatment of certain income.*—For individuals in 2013, tax rates on regular income vary from 10 percent to 39.6 percent, depending on the taxpayer's income. The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, current law allows capital gains to be taxed at a preferentially low rate that is no higher than 20 percent. Certain agricultural income, such as unharvested crops, qualify for taxation as capital gains rather than ordinary income, and so benefit from the preferentially low 20 percent maximum tax rate on capital gains.

47. *Income averaging for farmers.*—The baseline tax system generally taxes all earned income each year at the rate determined by the income tax. However, taxpayers may average their taxable income from farming and fishing over the previous three years.

48. *Deferral of gain on sales of farm refiners.*—The baseline tax system generally subjects capital gains to taxes the year that they are realized. However, the Tax Code allows a taxpayer who sells stock in a farm refiner to a farmers' cooperative to defer recognition of the gain if the proceeds are re-invested in a qualified replacement property.

49. *Expensing of reforestation expenditures.*—The baseline tax system requires the taxpayer to capitalize costs associated with an investment over time. In contrast, the Tax Code provides for the expensing of the first \$10,000 in reforestation expenditures with 7-year amortization of the remaining expenses.

Commerce and Housing

This category includes a number of tax expenditure provisions that also affect economic activity in other functional categories. For example, provisions related to investment, such as accelerated depreciation, could be classified under the energy, natural resources and environment, agriculture, or transportation categories.

50. *Credit union income exemption.*—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, in the Tax Code the earnings of credit unions not distributed to members as interest or dividends are exempt from the income tax.

51. *Deferral of income on life insurance and annuity contracts.*—Under the baseline tax system, individuals and corporations pay taxes on their income when it is (actually or constructively) received or accrued, depending on their method of accounting. Nevertheless, the Tax Code provides favorable tax treatment for investment income earned within qualified life insurance and annuity contracts. In general, investment income earned on qualified life insurance contracts held until death is

permanently exempt from income tax. Investment income distributed prior to the death of the insured is tax-exempt to the extent that investment in the contract is overstated (because premiums paid for the cost of life insurance protection are credited to investment in the contract), while the remaining distributed amounts are tax-deferred because income is not taxed on a current basis, but is recognized only when distributed from the contract. Investment income earned on annuities benefits from tax deferral.

52. *Small property and casualty insurance companies.*—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, stock non-life insurance companies are generally exempt from tax if their gross receipts for the taxable year do not exceed \$600,000 and more than 50 percent of such gross receipts consist of premiums. Mutual non-life insurance companies are generally tax-exempt if their annual gross receipts do not exceed \$150,000 and more than 35 percent of gross receipts consist of premiums. Also, non-life insurance companies with no more than \$1.2 million of annual net premiums may elect to pay tax only on their taxable investment income.

53. *Insurance companies owned by exempt organizations.*—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Generally the income generated by life and property and casualty insurance companies is subject to tax, albeit by special rules. Insurance operations conducted by such exempt organizations as fraternal societies, voluntary employee benefit associations, and others, however, are exempt from tax.

54. *Small life insurance company deduction.*—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. However, under current law small life insurance companies (with gross assets of less than \$500 million) can deduct 60 percent of the first \$3 million of otherwise taxable income. The deduction phases out for otherwise taxable income between \$3 million and \$15 million.

55. *Exclusion of interest spread of financial institutions.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Consumers and non-profit organizations pay for some deposit-linked services, such as check cashing, by accepting a below-market interest rate on their demand deposits. If they received a market rate of interest on those deposits and paid explicit fees for the associated services, they would pay taxes on the full market rate and (unlike businesses) could not deduct the fees. The Government thus foregoes tax on the difference between the risk-free market interest rate and below-market interest rates on demand deposits, which

under competitive conditions should equal the value added of deposit services.

56. *Mortgage housing bonds.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds used to finance homes purchased by first-time, low-to-moderate-income buyers to be exempt. These bonds are generally subject to the State private-activity-bond annual volume cap.

57. *Rental housing bonds.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local government bonds used to finance multi-family rental housing projects to be tax-exempt.

58. *Interest on owner-occupied homes.*—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services and also allows the owner-occupant to deduct mortgage interest paid on his or her primary residence and one secondary residence as an itemized non-business deduction. In general, the mortgage interest deduction is limited to interest on debt no greater than the owner's basis in the residence, and is also limited to interest on debt of no more than \$1 million. Interest on up to \$100,000 of other debt secured by a lien on a principal or second residence is also deductible, irrespective of the purpose of borrowing, provided the total debt does not exceed the fair market value of the residence. As an alternative to the deduction, holders of qualified Mortgage Credit Certificates issued by State or local governmental units or agencies may claim a tax credit equal to a proportion of their interest expense.

59. *Taxes on owner-occupied homes.*—Under the baseline tax system, expenses incurred in earning income would be deductible. However, such expenses would not be deductible when the income or the return on an investment is not taxed. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for the value of owner-occupied housing services and also allows the owner-occupant to deduct property taxes paid on his or her primary and secondary residences.

60. *Installment sales.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates, or deferral of tax, to apply to certain types or sources of income. Dealers in real and personal property (i.e., sellers who regularly hold property for sale or resale) cannot defer taxable income from installment sales until the receipt of the loan repayment. Nondealers (i.e., sellers of real property used in their business) are required to pay interest on deferred taxes attributable to their total installment obligations in excess of \$5 million. Only properties with sales prices exceeding \$150,000 are includ-

able in the total. The payment of a market rate of interest eliminates the benefit of the tax deferral. The tax exemption for nondealers with total installment obligations of less than \$5 million is, therefore, a tax expenditure.

61. Capital gains exclusion on home sales.—The baseline tax system would not allow deductions and exemptions for certain types of income. In contrast, the Tax Code allows homeowners to exclude from gross income up to \$250,000 (\$500,000 in the case of a married couple filing a joint return) of the capital gains from the sale of a principal residence. To qualify, the taxpayer must have owned and used the property as the taxpayer's principal residence for a total of at least two of the five years preceding the date of sale. In addition, the exclusion may not be used more than once every two years.

62. Imputed net rental income on owner-occupied housing.—Under the baseline tax system, the taxable income of a taxpayer who is an owner-occupant would include the implicit value of gross rental income on housing services earned on the investment in owner-occupied housing and would allow a deduction for expenses, such as interest, depreciation, property taxes, and other costs, associated with earning such rental income. In contrast, the Tax Code allows an exclusion from taxable income for the implicit gross rental income on housing services, while in certain circumstances allows a deduction for some costs associated with such income, such as for mortgage interest and property taxes.

63. Passive loss real estate exemption.—The baseline tax system accepts current law's general rule limiting taxpayers' ability to deduct losses from passive activities against nonpassive income (e.g., wages, interest, and dividends). Passive activities generally are defined as those in which the taxpayer does not materially participate and there are numerous additional considerations brought to bear on the determination of which activities are passive for a given taxpayer. Losses are limited in an attempt to limit tax sheltering activities. Passive losses that are unused may be carried forward and applied against future passive income.

In contrast to the general restrictions on passive losses, the Tax Code exempts owners of rental real estate activities from "passive income" limitations. The exemption is limited to \$25,000 in losses and phases out for taxpayers with income between \$100,000 and \$150,000.

64. Low-income housing credit.—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, under current law taxpayers who invest in certain low-income housing are eligible for a tax credit. The credit rate is set so that the present value of the credit is equal to 70 percent for new construction and 30 percent for (1) housing receiving other Federal benefits (such as tax-exempt bond financing), or (2) substantially rehabilitated existing housing. The credit can exceed these levels in certain statutorily defined and State designated areas where project development costs are higher. The credit is allowed in equal amounts over 10 years and is generally subject to a volume cap.

65. Accelerated depreciation of residential rental property.—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the rental property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

66. Discharge of mortgage indebtedness.—Under the baseline tax system, all income would generally be taxed under the regular tax rate schedule. The baseline tax system would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge of indebtedness of up to \$2 million (\$1 million in the case of a married individual filing a separate return) from a qualified principal residence. The provision applies to debt discharged after January 1, 2007, and before January 1, 2014.

67. Discharge of business indebtedness.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for any discharge qualified real property business indebtedness by taxpayers other than a C corporation. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled.

68. Imputed interest rules.—Under the baseline tax system, holders (issuers) of debt instruments are generally required to report interest earned (paid) in the period it accrues, not when paid. In addition, the amount of interest accrued is determined by the actual price paid, not by the stated principal and interest stipulated in the instrument. But under current law, and in general, any debt associated with the sale of property worth less than \$250,000 is excepted from the general interest accounting rules. This general \$250,000 exception is not a tax expenditure under reference law but is under normal law. Exceptions above \$250,000 are a tax expenditure under reference law; these exceptions include the following: (1) sales of personal residences worth more than \$250,000, and (2) sales of farms and small businesses worth between \$250,000 and \$1 million.

69. Treatment of qualified dividends.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals in 2013, tax rates on regular income vary from 10 percent to 39.6 percent, depending on the taxpayer's income. In contrast, under current law, qualified dividends are taxed at a preferentially low rate that is no higher than 20 percent.

70. Capital gains (other than agriculture, timber, and coal).—The baseline tax system generally

would tax all income under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. For individuals in 2013, tax rates on regular income vary from 10 percent to 39.6 percent, depending on the taxpayer's income. In contrast, under current law, capital gains on assets held for more than one year are taxed at a preferentially low rate that is no higher than 20 percent.

71. Capital gains exclusion for small business stock.—The baseline tax system would not allow deductions and exemptions, or provide preferential treatment of certain sources of income or types of activities. In contrast, the Tax Code provides an exclusion of 50 percent (from a 28 percent tax rate) for capital gains from qualified small business stock held by individuals for more than 5 years; 75 percent for stock issued after February 17, 2009 and before September 28, 2010; and 100 percent for stock issued after September 27, 2010 and before January 1, 2014. A qualified small business is a corporation whose gross assets do not exceed \$50 million as of the date of issuance of the stock.

72. Step-up in basis of capital gains at death.—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift. It would not allow for exempting gains upon transfer of the underlying assets to the heirs. In contrast, capital gains on assets held at the owner's death are not subject to capital gains tax under current law. The cost basis of the appreciated assets is adjusted to the market value at the owner's date of death which becomes the basis for the heirs.

73. Carryover basis of capital gains on gifts.—Under the baseline tax system, unrealized capital gains would be taxed when assets are transferred at death or by gift. In contrast, when a gift of appreciated asset is made under current law, the donor's basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor's basis allows a continued deferral of unrealized capital gains.

74. Ordinary income treatment of losses from sale of small business corporate stock shares.—The baseline tax system limits to \$3,000 the write-off of losses from capital assets, with carryover of the excess to future years. In contrast, the Tax Code allows up to \$100,000 in losses from the sale of small business corporate stock (capitalization less than \$1 million) to be treated as ordinary losses and fully deducted.

75. Depreciation of non-rental-housing buildings.—Under an economic income tax, the costs of acquiring a building are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

76. Accelerated depreciation of machinery and equipment.—Under an economic income tax, the costs of acquiring machinery and equipment are capitalized and depreciated over time in accordance with the decline in the property's economic value due to wear and tear or obsolescence. This insures that the net income from the property is measured appropriately each year. However, the depreciation provisions of the Tax Code are part of the reference law rules, and thus do not give rise to tax expenditures under reference law. Under normal law, however, depreciation allowances reflect estimates of economic depreciation.

77. Expensing of certain small investments.—Under the reference law baseline, the costs of acquiring tangible property and computer software would be depreciated using the Tax Code's depreciation provisions. Under the normal tax baseline, depreciation allowances are estimates of economic depreciation. However, the Tax Code allows qualifying investments by small businesses in tangible property and certain computer software to be expensed rather than depreciated over time.

78. Graduated corporation income tax rate schedule.—Because the corporate rate schedule is part of reference tax law, it is not considered a tax expenditure under the reference method. A flat corporation income tax rate is taken as the baseline under the normal tax method; therefore the lower rate is considered a tax expenditure under this concept.

79. Small issue industrial development bonds.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on small issue industrial development bonds (IDBs) issued by State and local governments to finance manufacturing facilities to be tax exempt. Depreciable property financed with small issue IDBs must be depreciated, however, using the straight-line method. The annual volume of small issue IDBs is subject to the unified volume cap discussed in the mortgage housing bond section above.

80. Deduction for U.S. production activities.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows for a deduction equal to a portion of taxable income attributable to domestic production.

81. Special rules for certain film and TV production.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow deductions and exemptions or preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law taxpayers may deduct up to \$15 million per production (\$20 million in certain distressed areas) in non-capital expenditures incurred during the year. This provision expires at the end of 2013.

Transportation

82. *Tonnage tax.*—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. U.S. shipping companies may choose to be subject to a tonnage tax based on gross shipping weight in lieu of an income tax, in which case profits would not be subject to tax under the regular tax rate schedule.

83. *Deferral of tax on U.S. shipping companies.*—The baseline tax system generally would tax all profits and income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows certain companies that operate U.S. flag vessels to defer income taxes on that portion of their income used for shipping purposes, primarily construction, modernization and major repairs to ships, and repayment of loans to finance these investments.

84. *Exclusion of employee parking expenses.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from taxable income for employee parking expenses that are paid for by the employer or that are received by the employee in lieu of wages. In 2013, the maximum amount of the parking exclusion is \$245 per month. The tax expenditure estimate does not include any subsidy provided through employer-owned parking facilities.

85. *Exclusion of employee transit pass expenses.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a taxpayer's taxable income for passes, tokens, fare cards, and vanpool expenses that are paid for by an employer or that are received by the employee in lieu of wages to defray an employee's commuting costs. The maximum amount of the transit exclusion is \$130 (indexed) per month in 2014. (There had been a parity provision that had temporary resulted in a higher maximum equal to those for parking passes for several years, which expired on December 31, 2013.)

86. *Tax credit for certain expenditures for maintaining railroad tracks.*—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law eligible taxpayers may claim a credit equal to the lesser of 50 percent of maintenance expenditures and the product of \$3,500 and the number of miles of track owned or leased. This provision expires at the end of 2013.

87. *Exclusion of interest on bonds for financing of highway projects and rail-truck transfer facilities.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax

Code provides for \$15 billion of tax-exempt bond authority to finance qualified highway or surface freight transfer facilities. The authority to issue these bonds expires on December 31, 2015.

Community and Regional Development

88. *Rehabilitation of structures.*—The baseline tax system would uniformly tax all returns to investments and not allow credits for particular activities, investments, or industries. However, the Tax Code allows a 10-percent investment tax credit for the rehabilitation of buildings that are used for business or productive activities and that were erected before 1936 for other than residential purposes. The taxpayer's recoverable basis must be reduced by the amount of the credit.

89. *Airport, dock, and similar facility bonds.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allows interest earned on State and local bonds issued to finance high-speed rail facilities and Government-owned airports, docks, wharves, and sport and convention facilities to be tax-exempt. These bonds are not subject to a volume cap.

90. *Exemption of income of mutuals and cooperatives.*—Under the baseline tax system, corporations pay taxes on their profits under the regular tax rate schedule. In contrast, the Tax Code provides for the incomes of mutual and cooperative telephone and electric companies to be exempt from tax if at least 85 percent of their revenues are derived from patron service charges.

91. *Empowerment zones, the DC Enterprise Zone, and renewal communities.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income, tax credits, and write-offs faster than economic depreciation. In contrast, under current law qualifying businesses in designated economically depressed areas can receive tax benefits such as an employer wage credit, increased expensing of investment in equipment, special tax-exempt financing, accelerated depreciation, and certain capital gains incentives. A taxpayer's ability to accrue new tax benefits for empowerment zones expired December 31, 2013.

92. *New markets tax credit.*—The baseline tax system would not allow credits for particular activities, investments, or industries. However, under current law taxpayers who make qualified equity investments in a community development entity (CDE), which then makes qualified investments in low-income communities, are eligible for a tax credit received over 7 years. A CDE must first receive an allocation of tax credit from Treasury before it can sell the tax credit to the investor in exchange for the equity investment. The total equity investment available for the credit across all CDEs is \$3.5 billion for 2013, the last year for which allocations can be made.

93. *Expensing of environmental remediation costs.*—Under the baseline tax system, the costs would be amortized (or depreciated) over an estimate of the economic life of the building. This insures that the net income from the buildings is measured appropriately each year. However, the Tax Code allows taxpayers who clean up certain hazardous substances at a qualified site to expense the clean-up costs, even though the expenses will generally increase the value of the property significantly or appreciably prolong the life of the property.

94. *Credit to holders of Gulf and Midwest Tax Credit Bonds.*—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, under current law taxpayers that own Gulf and Midwest Tax Credit bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income.

95. *Recovery Zone Bonds.*—The baseline tax system would not allow credits for particular activities, investments, or industries. In addition, it would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code allowed local governments to issue up to \$10 billion in taxable Recovery Zone Economic Development Bonds in 2009 and 2010 and receive a direct payment from Treasury equal to 45 percent of interest expenses. In addition, local governments could issue up to \$15 billion in tax exempt Recovery Zone Facility Bonds. These bonds financed certain kinds of business development in areas of economic distress.

96. *Tribal Economic Development Bonds.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, the Tax Code was modified in 2009 to allow Indian tribal governments to issue tax exempt “tribal economic development bonds.” There is a national bond limitation of \$2 billion.

Education, Training, Employment, and Social Services

97. *Scholarship and fellowship income.*—Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income. From an economic point of view, scholarships and fellowships are either gifts not conditioned on the performance of services, or they are rebates of educational costs. Thus, under the baseline tax system of the reference law method, this exclusion is not a tax expenditure because this method does not include either gifts or price reductions in a taxpayer’s gross income. The exclusion, however, is considered a tax expenditure under the normal tax method, which includes gift-like transfers of Government funds in gross income (many scholarships are derived directly or indirectly from Government funding).

98. *HOPE tax credit.*—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable HOPE tax credit allows a credit for 100 percent of an eligible student’s first \$1,200 of tuition and fees and 50 percent of the next \$1,200 of tuition and fees. The credit only covers tuition and fees paid during the first two years of a student’s post-secondary education. In 2013, the credit is phased out ratably for taxpayers with modified AGI between \$107,000 and \$127,000 if married filing jointly (\$53,000 and \$63,000 for other taxpayers), indexed.

99. *Lifetime Learning tax credit.*—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, the non-refundable Lifetime Learning tax credit allows a credit for 20 percent of an eligible student’s tuition and fees, up to a maximum credit per return of \$2,000. In 2013, the credit is phased out ratably for taxpayers with modified AGI between \$107,000 and \$127,000 if married filing jointly (\$53,000 and \$63,000 for other taxpayers), indexed. The credit applies to both undergraduate and graduate students.

100. *American Opportunity Tax Credit.*—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law in 2013, however, the American Opportunity tax credit allows a partially refundable credit of up to \$2,500 per eligible student for qualified tuition and related expenses paid during each of the first four years of the student’s post-secondary education. The credit is phased out for taxpayers with modified adjusted gross income between \$80,000 and \$90,000 (\$160,000 and \$180,000 for married taxpayers filing a joint return). The credit expires at the end of 2017.

101. *Education Individual Retirement Accounts (IRA).*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. While contributions to an education IRA are not tax-deductible under current law, investment income earned by education IRAs is not taxed when earned, and investment income from an education IRA is tax-exempt when withdrawn to pay for a student’s education expenses. The maximum contribution to an education IRA in 2013 is \$2,000 per beneficiary. In 2013, the maximum contribution is phased down ratably for taxpayers with modified AGI between \$190,000 and \$220,000 if married filing jointly (\$95,000 and \$110,000 for other taxpayers).

102. *Student-loan interest.*—The baseline tax system accepts current law’s general rule limiting taxpayers’ ability to deduct non-business interest expenses. In contrast, taxpayers may claim an above-the-line deduction of up to \$2,500 on interest paid on an education loan. In 2013, the maximum deduction is phased down ratably for taxpayers with modified AGI between \$125,000 and \$155,000 if married filing jointly (\$60,000 and \$75,000 for other taxpayers).

103. *Deduction for higher education expenses.*—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides a maximum annual deduction of \$4,000 for qualified higher education expenses for taxpayers with adjusted gross income up to \$130,000 on a joint return (\$65,000 for other taxpayers). Taxpayers with adjusted gross income up to \$160,000 on a joint return (\$80,000 for other taxpayers) may deduct up to \$2,000. This provision expired on December 31, 2013.

104. *Qualified tuition programs.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Some States have adopted prepaid tuition plans, prepaid room and board plans, and college savings plans, which allow persons to pay in advance or save for college expenses for designated beneficiaries. Under current law, investment income, or the return on prepayments, is not taxed when earned, and is tax-exempt when withdrawn to pay for qualified expenses.

105. *Student-loan bonds.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, interest earned on State and local bonds issued to finance student loans is tax-exempt under current law. The volume of all such private activity bonds that each State may issue annually is limited.

106. *Bonds for private nonprofit educational institutions.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local Government bonds issued to finance the construction of facilities used by private nonprofit educational institutions is not taxed.

107. *Credit for holders of zone academy bonds.*—The baseline tax system would not allow credits for particular activities, investments, or industries. Under current law, however, financial institutions that own zone academy bonds receive a non-refundable tax credit rather than interest. The credit is included in gross income. Proceeds from zone academy bonds may only be used to renovate, but not construct, qualifying schools and for certain other school purposes. The total amount of zone academy bonds that may be issued was limited to \$1.4 billion in 2009 and 2010. As of March 2010, issuers of the unused authorization of such bonds could opt to receive direct payment with the yield becoming fully taxable. An additional \$0.4 billion of these bonds with a tax credit was authorized to be issued before January 1, 2013.

108. *U.S. savings bonds for education.*—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Under current law, however, interest earned on U.S. savings bonds issued after December 31, 1989 is tax-exempt if the bonds are transferred to an educational institution to pay for educational expenses.

The tax exemption is phased out for taxpayers with AGI between \$112,050 and \$142,050 if married filing jointly (\$74,700 and \$89,700 for other taxpayers) in 2013.

109. *Dependent students age 19 or older.*—Under the baseline tax system, a personal exemption for the taxpayer is allowed. However, additional exemptions for targeted groups within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers to claim personal exemptions for dependent children who are over the age of 18 and under the age of 24 and who (1) reside with the taxpayer for over half the year (with exceptions for temporary absences from home, such as for school attendance), (2) are full-time students, and (3) do not claim a personal exemption on their own tax returns.

110. *Charitable contributions to educational institutions.*—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to nonprofit educational institutions. Moreover, taxpayers who donate capital assets to educational institutions can deduct the asset's current value without being taxed on any appreciation in value. An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

111. *Employer-provided educational assistance.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, employer-provided educational assistance is excluded from an employee's gross income even though the employer's costs for this assistance are a deductible business expense. The maximum exclusion is \$5,250 per taxpayer.

112. *Special deduction for teacher expenses.*—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law educators in both public and private elementary and secondary schools, who work at least 900 hours during a school year as a teacher, instructor, counselor, principal or aide, may subtract up to \$250 of qualified expenses when figuring their adjusted gross income (AGI). This provision expired on December 31, 2013.

113. *Discharge of student loan indebtedness.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, the Tax Code allows certain professionals who perform in underserved areas or specific fields, and as a consequence have their student loans discharged, not to recognize such discharge as income.

114. *Qualified school construction bonds.*—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code was modified in 2009 to provide a tax credit in lieu of interest to holders of qualified school construction bonds. The national vol-

ume limit is \$22.4 billion over 2009 and 2010. As of March 2010, issuers of such bonds could opt to receive direct payment with the yield becoming fully taxable.

115. *Work opportunity tax credit (WOTC).*—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to individuals. The credit applies to employees who begin work on or before December 31, 2013 and who are certified as members of various targeted groups. The amount of the credit that can be claimed is 25 percent of qualified wages for employment less than 400 hours and 40 percent for employment of 400 hours or more. Generally, the maximum credit per employee is \$2,400 and can only be claimed on the first year of wages an individual earns from an employer. However, the credit for long-term welfare recipients can be claimed on second year wages as well and has a \$9,000 maximum. Also, certain categories of veterans are eligible for a higher maximum credit of up to \$9,600. Employees must work at least 120 hours to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed.

116. *Employer-provided child care exclusion.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law up to \$5,000 of employer-provided child care is excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

117. *Employer-provided child care credit.*—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, current law provides a credit equal to 25 percent of qualified expenses for employee child care and 10 percent of qualified expenses for child care resource and referral services. Employer deductions for such expenses are reduced by the amount of the credit. The maximum total credit is limited to \$150,000 per taxable year.

118. *Assistance for adopted foster children.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children's significant and varied needs and a reimbursement of up to \$2,000 for non-recurring adoption expenses; special needs adoptions receive the maximum benefit even if that amount not spent. These payments are excluded from gross income under current law.

119. *Adoption credit and exclusion.*—The baseline tax system would not allow credits for particular activities. Instead, taxpayers can receive a tax credit for qualified adoption expenses under current law. The maximum credit is \$12,970 per child for 2013, and is phased-out ratably for taxpayers with modified AGI between \$194,580 and \$234,580. The credit amounts and the phase-out thresholds are indexed for inflation. Taxpayers

may also exclude qualified adoption expenses provided or reimbursed by an employer from income, subject to the same maximum amounts and phase-out as the credit. The same expenses cannot qualify for tax benefits under both programs; however, a taxpayer may use the benefits of the exclusion and the tax credit for different expenses.

120. *Employer-provided meals and lodging.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law employer-provided meals and lodging are excluded from an employee's gross income even though the employer's costs for these items are a deductible business expense.

121. *Child credit.*—The baseline tax system would not allow credits for particular activities or targeted at specific groups. Under current law, however, taxpayers with children under age 17 can qualify for a \$1,000 partially refundable per child credit. Any unclaimed credit due to insufficient tax liability may be refundable – taxpayers may claim a refund for 15 percent of earnings in excess of a \$3,000 floor, up to the amount of unused credit. Alternatively, taxpayers with three or more children may claim a refund of the amount of payroll taxes paid in excess of EITC received (up to the amount of unused credit) if this results in a larger refund. The credit is phased out for taxpayers at the rate of \$50 per \$1,000 of modified AGI above \$110,000 (\$75,000 for single or head of household filers and \$55,000 for married taxpayers filing separately). After 2017 refundability is based on earnings in excess of \$10,000 indexed from 2000, rather than from \$3,000 (unindexed); taxpayers with three or more children may continue to use the alternative calculation.

122. *Child and dependent care expenses.*—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides parents who work or attend school and who have child and dependent care expenses a tax credit. In 2013, expenditures up to a maximum \$3,000 for one dependent and \$6,000 for two or more dependents are eligible for the credit. The credit is equal to 35 percent of qualified expenditures for taxpayers with incomes of \$15,000. The credit is reduced to a minimum of 20 percent by one percentage point for each \$2,000 of income in excess of \$15,000.

123. *Disabled access expenditure credit.*—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Tax Code provides small businesses (less than \$1 million in gross receipts or fewer than 31 full-time employees) a 50-percent credit for expenditures in excess of \$250 to remove access barriers for disabled persons. The credit is limited to \$5,000.

124. *Charitable contributions, other than education and health.*—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides taxpayers a deduction for contributions to charitable, religious, and certain other nonprofit organizations. Taxpayers who donate capital assets to charitable organizations can deduct the assets' current value without being taxed on any appreciation in value.

An individual's total charitable contribution generally may not exceed 50 percent of adjusted gross income; a corporation's total charitable contributions generally may not exceed 10 percent of pre-tax income.

125. Foster care payments.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. Foster parents provide a home and care for children who are wards of the State, under contract with the State. However, compensation received for this service is excluded from the gross incomes of foster parents; the expenses they incur are nondeductible.

126. Parsonage allowances.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income. Dedicated payments and in-kind benefits represent accretions to wealth that do not differ materially from cash wages. In contrast, the Tax Code allows an exclusion from a clergyman's taxable income for the value of the clergyman's housing allowance or the rental value of the clergyman's parsonage.

127. Indian employment credit.—The baseline tax system would not allow credits for particular activities, investments, or industries. Instead, it generally would seek to tax uniformly all returns from investment-like activities. In contrast, the Tax Code provides employers with a tax credit for qualified wages paid to employees who are enrolled members of Indian tribes. The amount of the credit that can be claimed is 20 percent of the excess of qualified wages and health insurance costs paid by the employer in the current tax year over the amount of such wages and costs paid by the employer in 1993. Qualified wages and health insurance costs with respect to any employee for the taxable year may not exceed \$20,000. Employees must live on or near the reservation where he or she works to be eligible for the credit. Employers must reduce their deduction for wages paid by the amount of the credit claimed. The credit does not apply to taxable years beginning after December 31, 2013.

Health

128. Employer-paid medical insurance and expenses.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law, employer-paid health insurance premiums and other medical expenses (including long-term care) are deducted as a business expense by employers, but they are not included in employee gross income.

129. Self-employed medical insurance premiums.—Under the baseline tax system, all compensation and remuneration, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, under current law self-employed taxpayers may deduct their family health insurance premiums. Taxpayers without self-employment income are not eligible for this special deduction. The deduction is not available for any month in which the self-employed individual

is eligible to participate in an employer-subsidized health plan and the deduction may not exceed the self-employed individual's earned income from self-employment.

130. Medical and health savings accounts.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Also, the baseline tax system would not allow a deduction for personal expenditures. In contrast, individual contributions to Archer Medical Savings Accounts (Archer MSAs) and Health Savings Accounts (HSAs) are allowed as a deduction in determining adjusted gross income whether or not the individual itemizes deductions. Employer contributions to Archer MSAs and HSAs are excluded from income and employment taxes. Archer MSAs and HSAs require that the individual have coverage by a qualifying high deductible health plan. Earnings from the accounts are excluded from taxable income. Distributions from the accounts used for medical expenses are not taxable. The rules for HSAs are generally more flexible than for Archer MSAs and the deductible contribution amounts are greater (in 2013, \$3,250 for taxpayers with individual coverage and \$6,450 for taxpayers with family coverage). Thus, HSAs have largely replaced MSAs.

131. Medical care expenses.—The baseline tax system would not allow a deduction for personal expenditures. In contrast, under current law personal expenditures for medical care (including the costs of prescription drugs) exceeding 7.5 percent of the taxpayer's adjusted gross income are deductible. For tax years beginning after 2012, only medical expenditures exceeding 10 percent of the taxpayer's adjusted gross income are deductible. However, for the years 2013, 2014, 2015 and 2016, if either the taxpayer or the taxpayer's spouse turns 65 before the end of the taxable year, the threshold remains at 7.5 percent of adjusted income.

132. Hospital construction bonds.—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government debt issued to finance hospital construction is excluded from income subject to tax.

133. Refundable Premium Assistance Tax Credit.—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, for taxable years ending after 2013, the Tax Code provides a premium assistance credit to any eligible taxpayer for any qualified health insurance purchased through a Health Insurance Exchange. In general, an eligible taxpayer is a taxpayer with annual household income between 100% and 400% of the federal poverty level for a family of the taxpayer's size and that does not have access to affordable minimum essential health care coverage. The amount of the credit equals the lesser of (i) the actual premiums paid by the taxpayer for such coverage or (ii) the difference between the cost of a statutorily-identified benchmark plan offered on the exchange and a required payment by the taxpayer that increases with income.

134. Credit for employee health insurance expenses of small business.—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides a tax credit to qualified small employers that make a certain level of non-elective contributions towards the purchase of certain health insurance coverage for its employees. To receive a credit, an employer must have fewer than 25 full-time-equivalent employees whose average annual full-time-equivalent wages from the employer are less than \$50,000 (indexed for taxable years after 2013). However, to receive a full credit, an employer must have no more than 10 full-time employees, and the average wage paid to these employees must be no more than \$25,000 (indexed for taxable years after 2013). A qualifying employer may claim the credit for any taxable year beginning in 2010, 2011, 2012, and 2013 and for up to two years for insurance purchased through a Health Insurance Exchange thereafter. For taxable beginning in 2010, 2011, 2012, and 2013, the maximum credit is 35 percent of premiums paid by qualified taxable employers and 25 percent of premiums paid by qualified tax-exempt organizations. For taxable years beginning in 2014 and later years, the maximum tax credit will increase to 50 percent of premiums paid by qualified taxable employers and 35 percent of premiums paid by qualified tax-exempt organizations.

135. Charitable contributions to health institutions.—The baseline tax system would not allow a deduction for personal expenditures. In contrast, the Tax Code provides individuals and corporations a deduction for contributions to nonprofit health institutions. Tax expenditures resulting from the deductibility of contributions to other charitable institutions are listed under the education, training, employment, and social services function.

136. Orphan drugs.—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, under current law drug firms can claim a tax credit of 50 percent of the costs for clinical testing required by the Food and Drug Administration for drugs that treat rare physical conditions or rare diseases.

137. Blue Cross and Blue Shield.—The baseline tax system generally would tax all profits under the regular tax rate schedule. It would not allow preferentially low tax rates to apply to certain types or sources of income. In contrast, Blue Cross and Blue Shield health insurance providers in existence on August 16, 1986 and certain other nonprofit health insurers are provided exceptions from otherwise applicable insurance company income tax accounting rules that substantially reduce their tax liabilities, provided that their percentage of total premium revenue expended on reimbursement for clinical services provided to enrollees is not less than 85 percent for the taxable year.

138. Tax credit for health insurance purchased by certain displaced and retired individuals.—The baseline tax system would not allow credits for particular activities, investments, or industries. In contrast, the Trade Act of 2002 provides a refundable tax credit of 65 percent for the purchase of health insurance coverage by

individuals eligible for Trade Adjustment Assistance and certain Pension Benefit Guarantee Corporation pension recipients. The American Recovery and Reinvestment Act and a subsequent extension increased the credit to 80 percent in coverage months preceding March 2011. The Trade Adjustment Assistance Extension Act of 2011 extended an enhanced credit of 72.5% through December 2013, but eliminated the credit entirely beginning January 1, 2014.

139. Distributions for premiums for health and long-term care insurance.—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, the Tax Code provides for tax-free distributions of up to \$3,000 from governmental retirement plans for premiums for health and long term care premiums of public safety officers.

Income Security

140. Railroad retirement benefits.—Under the baseline tax system, all compensation, including dedicated and deferred payments, should be included in taxable income. In contrast, railroad retirement benefits are not generally subject to the income tax unless the recipient's gross income reaches a certain threshold under current law. The threshold is discussed more fully under the Social Security function.

141. Workers' compensation benefits.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, workers compensation is not subject to the income tax under current law.

142. Public assistance benefits.—Under the reference law baseline tax system, gifts and transfers are not treated as income to the recipients. In contrast, the normal tax method considers cash transfers from the Government as part of the recipients' income, and thus, treats the exclusion for public assistance benefits under current law as a tax expenditure.

143. Special benefits for disabled coal miners.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. However, disability payments to former coal miners out of the Black Lung Trust Fund, although income to the recipient, are not subject to the income tax.

144. Military disability pensions.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, most of the military pension income received by current disabled retired veterans is excluded from their income subject to tax.

145. Defined benefit employer plans.—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law certain contributions to defined benefit pension plans are excluded from an employee's gross income even though employers can deduct their contributions. In addition, the tax on the in-

vestment income earned by defined benefit pension plans is deferred until the money is withdrawn.

146. *Defined contribution employer plans.*—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers and employers can make tax-preferred contributions to employer-provided 401(k) and similar plans (e.g. 403(b) plans and the Federal Government's Thrift Savings Plan). In 2013, an employee could exclude up to \$17,500 (indexed) of wages from AGI under a qualified arrangement with an employer's 401(k) plan. Employees age 50 or over could exclude up to \$23,000 in contributions (indexed). The defined contribution plan limit, including both employee and employer contributions, is \$51,000 in 2013 (indexed). The tax on contributions made by both employees and employers and the investment income earned by these plans is deferred until withdrawn.

147. *Individual Retirement Accounts (IRAs).*—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law individual taxpayers can take advantage of traditional and Roth IRAs to defer or otherwise reduce the tax on the return to their retirement savings. The IRA contribution limit is \$5,500 in 2012 (indexed); taxpayers age 50 or over are allowed to make additional "catch-up" contributions of \$1,000. Contributions to a traditional IRA are generally deductible but the deduction is phased out for workers with incomes above certain levels who, or whose spouses, are active participants in an employer-provided retirement plan. Contributions and account earnings are includible in income when withdrawn from traditional IRAs. Roth IRA contributions are not deductible, but earnings and withdrawals are exempt from taxation. Income limits also apply to Roth IRA contributions.

148. *Low and moderate-income savers' credit.*—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an additional incentive for lower-income taxpayers to save through a nonrefundable credit of up to 50 percent on IRA and other retirement contributions of up to \$2,000. This credit is in addition to any deduction or exclusion. The credit is completely phased out by \$59,500 for joint filers, \$444,250 for head of household filers, and \$29,500 for other filers in 2013.

149. *Self-Employed plans.*—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law self-employed individuals can make deductible contributions to their own retirement plans equal to 25 percent of their income, up to a maximum of \$51,000 in 2013. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by self-employed SEP, SIMPLE, and qualified plans is deferred until withdrawn.

150. *Employer-provided life insurance benefits.*—Under the baseline tax system, all compensation, including deferred and dedicated payments, should be included in taxable income. In contrast, under current law

employer-provided life insurance benefits are excluded from an employee's gross income (to the extent that the employer's share of the total costs does not exceed the cost of \$50,000 of such insurance) even though the employer's costs for the insurance are a deductible business expense.

151. *Employer-provided accident and disability benefits.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, and under current law, employer-provided accident and disability benefits are excluded from an employee's gross income even though the employer's costs for the benefits are a deductible business expense.

152. *Employer-provided supplementary unemployment benefits.*—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. Employers may establish trusts to pay supplemental unemployment benefits to employees separated from employment. Investment income earned by such trusts is exempt from taxation.

153. *Employer Stock Ownership Plan (ESOP) provisions.*—ESOPs are a special type of tax-exempt employee benefit plan. Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income. In contrast, employer-paid contributions (the value of stock issued to the ESOP) are deductible by the employer as part of employee compensation costs. They are not included in the employees' gross income for tax purposes, however, until they are paid out as benefits. In addition, the following special income tax provisions for ESOPs are intended to increase ownership of corporations by their employees: (1) annual employer contributions are subject to less restrictive limitations than other qualified retirement plans; (2) ESOPs may borrow to purchase employer stock, guaranteed by their agreement with the employer that the debt will be serviced by his payment (deductible by him) of a portion of wages (excludable by the employees) to service the loan; (3) employees who sell appreciated company stock to the ESOP may defer any taxes due until they withdraw benefits; and (4) dividends paid to ESOP-held stock are deductible by the employer.

154. *Additional deduction for the blind.*—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are blind to claim an additional \$1,500 standard deduction if single, or \$1,200 if married in 2013.

155. *Additional deduction for the elderly.*—Under the baseline tax system, the standard deduction is allowed. An additional standard deduction for a targeted group within a given filing status would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years or older to claim an additional \$1,500 standard deduction if single, or \$1,200 if married in 2013.

156. *Tax credit for the elderly and disabled.*—Under the baseline tax system, a credit targeted at a specific group within a given filing status or for particular

activities would not be allowed. In contrast, the Tax Code allows taxpayers who are 65 years of age or older, or who are permanently disabled, to claim a tax credit equal to 15 percent of the sum of their earned and retirement income. The amount to which the 15 percent rate is applied is limited to no more than \$5,000 for single individuals or married couples filing a joint return where only one spouse is 65 years of age or older or disabled, and up to \$7,500 for joint returns where both spouses are 65 years of age or older or disabled. These limits are reduced by one-half of the taxpayer's adjusted gross income over \$7,500 for single individuals and \$10,000 for married couples filing a joint return.

157. Casualty losses.—Under the baseline tax system, neither the purchase of property nor insurance premiums to protect its value are deductible as costs of earning income. Therefore, reimbursement for insured loss of such property is not included as a part of gross income, and uninsured losses are not deductible. In contrast, the Tax Code provides a deduction for uninsured casualty and theft losses of more than \$100 each, to the extent that total losses during the year exceed 10 percent of the taxpayer's adjusted gross income.

158. Earned income tax credit (EITC).—The baseline tax system would not allow credits for particular activities or targeted at specific groups. In contrast, the Tax Code provides an EITC to low-income workers at a maximum rate of 45 percent of income. For a family with one qualifying child, the credit is 34 percent of the first \$9,560 of earned income in 2013. The credit is 40 percent of the first \$13,430 of income for a family with two qualifying children, and it is 45 percent of the first \$13,430 of income for a family with three or more qualifying children. Low-income workers with no qualifying children are eligible for a 7.65 percent credit on the first \$6,370 of earned income. The credit is phased out at income levels and rates which depend upon how many qualifying children are eligible and marital status. In 2013, the phasedown for married filers begins at incomes \$5,340 greater than for otherwise similar unmarried filers. Earned income tax credits in excess of tax liabilities owed through the individual income tax system are refundable to individuals. After 2017, the additional benefit for families with three or more children will be eliminated and the marriage penalty relief will be reduced to \$3,000 (indexed from 2008).

Social Security

159. Social Security benefits for retired workers.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, would be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Thus, the portion of Social Security benefits that is attributable to employer contributions and earnings on employer and employee contributions (and not attributable to employee contributions) would be subject to tax. In contrast, the Tax Code may not tax all of the Social Security benefits that exceed the beneficiary's contributions from previously taxed income. Actuarially, previous-

ly taxed contributions generally do not exceed 15 percent of benefits, even for retirees receiving the highest levels of benefits. Up to 85 percent of recipients' Social Security and tier 1 railroad retirement benefits are included in (phased into) the income tax base if the recipient's provisional income exceeds certain base amounts. (Provisional income is equal to other items included in adjusted gross income plus foreign or U.S. possession income, tax-exempt interest, and one half of Social Security and tier 1 railroad retirement benefits.) The untaxed portion of the benefits received by taxpayers who are below the income amounts at which 85 percent of the benefits are taxable is counted as a tax expenditure.

160. Social Security benefits for the disabled.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for disability are fully or partially excluded from a beneficiary's gross income. (See provision number 161, Social Security benefits for retired workers.)

161. Social Security benefits for dependents and survivors.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, benefit payments from the Social Security Trust Fund for dependents and survivors are fully or partially excluded from a beneficiary's gross income. (See provision number 159, Social Security benefits for retired workers.)

Veterans Benefits and Services

162. Veterans death benefits and disability compensation.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. In contrast, all compensation due to death or disability paid by the Veterans Administration is excluded from taxable income under current law.

163. Veterans pension payments.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, pension payments made by the Veterans Administration are excluded from gross income.

164. G.I. Bill benefits.—Under the baseline tax system, all compensation, including dedicated payments and in-kind benefits, should be included in taxable income because they represent accretions to wealth that do not materially differ from cash wages. Under current law, however, G.I. Bill benefits paid by the Veterans Administration are excluded from gross income.

165. ***Tax-exempt mortgage bonds for veterans.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law, interest earned on general obligation bonds issued by State and local governments to finance housing for veterans is excluded from taxable income.

General Government

166. ***Public purpose State and local bonds.***—The baseline tax system generally would tax all income under the regular tax rate schedule. It would not allow preferentially low (or zero) tax rates to apply to certain types or sources of income. In contrast, under current law interest earned on State and local government bonds issued to finance public-purpose construction (e.g., schools, roads, sewers), equipment acquisition, and other public purposes is tax-exempt. Interest on bonds issued by Indian tribal governments for essential governmental purposes is also tax-exempt.

167. ***Build America Bonds.***—The baseline tax system would not allow credits for particular activities or targeted at specific group. In contrast, the Tax Code in 2009 allowed State and local governments to issue taxable bonds through 2010 and receive a direct payment from Treasury equal to 35 percent of interest expenses. Alternatively, State and local governments could issue

taxable bonds and the private lenders receive the 35 percent credit which is included in taxable income.

168. ***Deductibility of certain nonbusiness State and local taxes.***—Under the baseline tax system, a deduction for personal consumption expenditures would not be allowed. In contrast, the Tax Code allows taxpayers who itemize their deductions to claim a deduction for State and local income taxes (or, at the taxpayer's election, State and local sales taxes) and property taxes, even though these taxes primarily pay for services that, if purchased directly by taxpayers, would not be deductible. The ability for taxpayers to elect to deduct State and local sales taxes in lieu of State and local income taxes applies to taxable years beginning after December 31, 2003 and before January 1, 2014. (The estimates for this tax expenditure do not include the estimates for the deductibility of State and local property tax on owner-occupied homes. See item 59.)

Interest

169. ***U.S. savings bonds.***—The baseline tax system would uniformly tax all returns to investments and not allow an exemption or deferral for particular activities, investments, or industries. In contrast, taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

APPENDIX

Performance Measures and the Economic Effects of Tax Expenditures

The Government Performance and Results Act of 1993 (GPRA) directs Federal agencies to develop annual and strategic plans for their programs and activities. These plans set out performance objectives to be achieved over a specific time period. Most of these objectives are achieved through direct expenditure programs. Tax expenditures – spending programs implemented through the tax code by reducing tax obligations for certain activities -- contribute to achieving these goals in a manner similar to direct expenditure programs.

Tax expenditures by definition work through the tax system and, particularly, the income tax. Thus, they may be relatively advantageous policy approaches when the benefit or incentive is related to income and is intended to be widely available.⁴ Because there is an existing public administrative and private compliance structure for the tax system, income based programs that require little oversight might be efficiently run through the tax system. In addition, some tax expenditures actually simplify the operation of the tax system (for example, the exclusion

for up to \$500,000 of capital gains on home sales). Tax expenditures also implicitly subsidize certain activities in a manner similar to direct expenditures. For example, exempting employer-sponsored health insurance from income taxation is equivalent to a direct spending subsidy equal to the forgone tax obligations for this type of compensation. Spending, regulatory or tax-disincentive policies can also modify behavior, but may have different economic effects. Finally, a variety of tax expenditure tools can be used, e.g., deductions; credits; exemptions; deferrals; floors; ceilings; phase-ins; phase-outs; and these can be dependent on income, expenses, or demographic characteristics (age, number of family members, etc.). This wide range of policy instruments means that tax expenditures can be flexible and can have very different economic effects.

Tax expenditures also have limitations. In many cases they add to the complexity of the tax system, which raises both administrative and compliance costs. For example, personal exemptions, deductions, credits, and phase-outs can complicate filing and decision-making. The income tax system may have little or no contact with persons who have no or very low incomes, and does not require information on certain characteristics of individuals used in some spending programs, such as wealth or duration of employment. These features may reduce the effectiveness of tax expenditures for addressing socioeconomic dispari-

⁴ Although this chapter focuses upon tax expenditures under the income tax, tax expenditures also arise under the unified transfer, payroll, and excise tax systems. Such provisions can be useful when they relate to the base of those taxes, such as excise tax exemption for certain types of consumption deemed meritorious.

ties. Tax expenditures also generally do not enable the same degree of agency discretion as an outlay program. For example, grant or direct Federal service delivery programs can prioritize activities to be addressed with specific resources in a way that is difficult to emulate with tax expenditures.

Outlay programs have advantages where the direct provision of government services is particularly warranted, such as equipping and maintaining the armed forces or administering the system of justice. Outlay programs may also be specifically designed to meet the needs of low-income families who would not otherwise be subject to income taxes or need to file a tax return. Outlay programs may also receive more year-to-year oversight and fine tuning through the legislative and executive budget process. In addition, many different types of spending programs include direct Government provision; credit programs; and payments to State and local governments, the private sector, or individuals in the form of grants or contracts provide flexibility for policy design. On the other hand, certain outlay programs may rely less directly on economic incentives and private-market provision than tax incentives, thereby reducing the relative efficiency of spending programs for some goals. Finally, spending programs, particularly on the discretionary side, may respond less rapidly to changing activity levels and economic conditions than tax expenditures.

Regulations may have more direct and immediate effects than outlay and tax-expenditure programs because regulations apply directly and immediately to the regulated party (i.e., the intended actor), generally in the private sector. Regulations can also be fine-tuned more quickly than tax expenditures because they can often be changed as needed by the Executive Branch without legislation. Like tax expenditures, regulations often rely largely on voluntary compliance, rather than detailed inspections and policing. As such, the public administrative costs tend to be modest relative to the private resource costs associated with modifying activities. Historically, regulations have tended to rely on proscriptive measures, as opposed to economic incentives. This reliance can diminish their economic efficiency, although this feature can also promote full compliance where (as in certain safety-related cases) policymakers believe that trade-offs with economic considerations are not of paramount importance. Also, regulations generally do not directly affect Federal outlays or receipts. Thus, like tax expenditures, they may escape the degree of scrutiny that outlay programs receive. Some policy objectives are achieved using multiple approaches. For example, minimum wage legislation, the earned income tax credit, and the food stamp program (SNAP) are regulatory, tax expenditure, and direct outlay programs, respectively, all having the objective of improving the economic welfare of low-wage workers and families.

A Framework for Evaluating the Effectiveness of Tax Expenditures

Across all major budgetary categories - from housing and health to space, technology, agriculture, and national

defense - tax expenditures make up a significant portion of Federal activity and affect every area of the economy. For these reasons, a comprehensive evaluation framework that examines incentives, direct results, and spillover effects will benefit the budgetary process by informing decisions on tax expenditure policy.

As described above, tax expenditures, like spending and regulatory programs, have a variety of objectives and economic effects. These include: encouraging certain types of activities (e.g., saving for retirement or investing in certain sectors); increasing certain types of after-tax income (e.g., favorable tax treatment of Social Security income); and reducing private compliance costs and Government administrative costs (e.g., the exclusion for up to \$500,000 of capital gains on home sales). Some of these objectives are well suited to quantitative measurement and evaluation, while others are less well suited.

Performance measurement is generally concerned with inputs, outputs, and outcomes. In the case of tax expenditures, the principal input is usually the revenue effect. Outputs are quantitative or qualitative measures of goods and services, or changes in income and investment, directly produced by these inputs. Outcomes, in turn, represent the changes in the economy, society, or environment that are the ultimate goals of programs. Evaluations assess whether programs are meeting intended goals, but may also encompass analyzing whether initiatives are superior to other policy alternatives.

The Administration is working towards examining the objectives and effects of the wide range of tax expenditures in our budget, despite challenges related to data availability, measurement, and analysis. Evaluations include an assessment of whether tax expenditures are achieving intended policy results in an efficient manner, with minimal burdens on individual taxpayers, consumers, and firms; and an examination of possible unintended effects and their consequences.

As an illustration of how evaluations can inform budgetary decisions, consider education, and research investment credits.

Education. There are millions of individuals taking advantage of tax credits designed to help pay for educational expenses. There are a number of different credits available as well as other important forms of Federal support for higher education such as subsidized loans and grants. An evaluation would explore the possible relationships between use of the credits and the use of loans and grants, seeking to answer, for example, whether the use of credits reduce or increase the likelihood of the students applying for loans. Such an evaluation would allow stakeholders to determine the most effective program - whether it is a tax credit, a subsidized loan, or a grant.

Investment. A series of tax expenditures reduce the cost of investment, both in specific activities such as research and experimentation, extractive industries, and certain financial activities and more generally throughout the economy, through accelerated depreciation for plant and equipment. These provisions can be evaluated along a number of dimensions. For example, it is useful to consider the strength of the incentives by measuring their ef-

fects on the cost of capital (the return which investments must yield to cover their costs) and effective tax rates. The impact of these provisions on the amounts of corresponding forms of investment (e.g., research spending, exploration activity, equipment) might also be estimated. In some cases, such as research, there is evidence that the investment can provide significant positive externalities—that is, economic benefits that are not reflected in the market transactions between private parties. It could be useful to quantify these externalities and compare them with the size of tax expenditures. Measures could also indicate the effects on production from these investments such as numbers or values of patents, energy production and reserves, and industrial production. Issues to be considered include the extent to which the preferences increase production (as opposed to benefiting existing output) and their cost-effectiveness relative to other policies. Analysis could also consider objectives that are more difficult to measure but still are ultimate goals, such as promoting the Nation's technological base, energy security, environmental quality, or economic growth. Such an assessment is likely to involve tax analysis as well as consideration of non-tax matters such as market structure, scientific, and other information (such as the effects of increased domestic fuel production on imports from various regions, or the effects of various energy sources on the environment).

The tax proposals subject to these analyses include items that indirectly affect the estimated value of tax expenditures (such as changes in income tax rates), proposals that make reforms to improve tax compliance and administration, as well as proposals which would change, add, or delete tax expenditures.

Barriers to Evaluation. Developing a framework that is sufficiently comprehensive, accurate, and flexible is a significant challenge. Evaluations are constrained by the availability of appropriate data and challenges in economic modeling:

1. **Data availability.** Data may not exist, or may not exist in an analytically appropriate form, to conduct rigorous evaluations of certain types of expenditures. For example, measuring the effects of tax expenditures designed to achieve tax neutrality for individuals and firms earning income abroad, and foreign firms could require data from foreign governments or firms which are not readily available.
2. **Analytical constraints.** Evaluations of tax expenditures face analytical constraints even when data are available. For example, individuals might have access to several tax expenditures and programs aimed at improving the same outcome. Isolating the effect of a single tax credit is challenging absent a well-specified research design.
3. **Resources.** Tax expenditure analyses are seriously constrained by staffing considerations. Evaluations typically require expert analysts who are often engaged in other more competing areas of work related to the budget.

The Executive Branch is focused on addressing these challenges to lay the foundation for the analysis of tax expenditures comprehensively, alongside evaluations of the effectiveness of direct spending initiatives.

Current Administration Proposals on Tax Expenditures

The Administration considers performance measurement, evaluations, and the economic effects of tax expenditures each year in its deliberation for the Budget and proposals are informed by these analyses. The President's National Commission on Fiscal Responsibility and Reform submitted a report in 2010 in which they said that the income tax system is unduly complicated and that the government should "sharply reduce rates, broaden the base, simplify the tax code, and reduce the many 'tax expenditures'—another name for spending through the tax code."

The current Budget and enacted Administration policies include several proposals that would change existing tax expenditures to raise revenue, eliminate ineffective or counterproductive tax expenditures, and enhance effective tax expenditures. The tax expenditure proposals in the budget further the Administration's goals of economic recovery and growth, clean and secure energy, a world-class education for all Americans, and fairness in the tax code. Some of these proposals are highlighted below.

Reduce the value of certain tax expenditures. The Administration proposes to limit the tax rate at which upper-income taxpayers can use itemized deductions and other tax preferences to reduce tax liability to a maximum of 28 percent, a limitation that would affect only the highest-income households. The limit would apply to all itemized deductions, tax-exempt interest, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above-the-line deductions, effective for taxable years beginning after December 31, 2014. These are among the largest tax expenditures. This proposal would make the tax code more equitable because the value of the tax expenditure as a percentage of the deduction is proportional to one's tax bracket, so it is less valuable to those in lower brackets.

Enhance and make permanent the Research and Experimentation (R&E) credit and modify and make permanent the Renewable Energy Production Tax Credit. The extension of the R&E credit every year creates uncertainty reducing firms' incentive to expand their research activities. For this reason, and more generally to achieve the President's R&D goals, the Budget proposes making the R&E credit permanent. For similar reasons, the Budget also proposes to permanently extend and enhance the production tax credit for renewable energy property.

Make permanent the American Opportunity Tax Credit (AOTC), the expansion of the EITC for larger families, EITC marriage penalty relief, and the refundability of the child tax credit. These provisions were extended through 2017 in ATRA and the Budget assumes in its baseline that these provisions would be permanently extended. Although permanent extension would increase the cost of

these tax expenditures, it would increase the equity of the overall tax system and provide benefits to low and middle income families.

Eliminate a range of tax expenditures in the context of business tax reform. The President's framework for business tax reform calls for eliminating dozens of tax loopholes and subsidies and reinvesting the revenue to lower the corporate tax rate to 28 percent. Consistent with the framework, the Budget includes a number of proposals to eliminate inefficient business tax expenditures. For

example, current law provides a number of credits and deductions that are targeted towards certain oil, gas, and coal activities. These tax preferences run counter to our policies for reducing greenhouse gas emissions. In accordance with the President's agreement at the G-20 summit in Pittsburgh to phase out subsidies for fossil fuels so that we can transition to a 21st century energy economy, the Administration proposes to repeal a number of tax preferences available for fossil fuels.

